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Canada Banking and Commerce
Standing Committee on 1956
HOUSE OF COMMONS
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Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

BILL 51

An Act to amend the Small Loans Act

THURSDAY, JULY 12, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Hamilton (York West)	Richardson
Ashbourne	Hanna	Robichaud
Balcom	Henderson	Rouleau
Bell	Hollingworth	St. Laurent (Temis-
Benidickson	Huffman	couata)
Blackmore	Low	Stewart (Winnipeg
Cameron (Nanaimo)	MacEachen	North)
Carrick	Macnaughton	Thatcher
Crestohl	Matheson	Tucker
Deslieries	Michener	Valois
Enfield	Monteith	Viau
Eudes	Nickle	Vincent
Fairey	Pallett	Weaver
Fleming	Philpott	White (Hastings-
Follwell	Power (Quebec South)	Frontenac)
Fraser (St. John's East)	Quelch	White (Waterloo South)
Fulton	Rea	
Gour (Russell)	Regier	

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 12, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Argue, Ashbourne, Balcom, Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Enfield, Eudes, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hollingworth, Huffman, Hunter, Michener, Monteith, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud and Thatcher.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and representatives of certain Small Loans Companies and interested organizations.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Fourth Report of the Sub-committee on Agenda and Procedure, as follows:

Your Sub-committee met at 2.00 o'clock p.m. on Tuesday, July 10, 1956, and agreed to recommend:

That the Committee continue its consideration of Bill 51, An Act to amend the Small Loans Act, on Thursday, July 12th, at 11.00 o'clock a.m. and at 3.30 o'clock p.m., and on succeeding Tuesdays and Thursdays at 3.30 o'clock and 8.15 o'clock p.m., and

That the Sub-committee meet again to review the situation after the second meeting on Tuesday next, July 17th.

Respectfully submitted.

The Fourth Report of the Sub-committee was adopted unanimously.

Mr. MacGregor was again called. In response to questions which had been asked during previous meetings, he tabled certain documents which the Committee agreed be printed as appendices to this day's Minutes of Proceedings and Evidence, namely:

Appendix "A" List of Licensees Owned Directly or Indirectly by U.S. Parent Companies as at December 31, 1955.

Appendix "B" Abstract of 1955 Financial Statements of Licensees Owned Directly or Indirectly by U.S. Parent Companies.

Appendix "C" Number of Offices in Canada of Chartered Banks, Credit Unions and Licensees under Small Loans Act.

Appendix "D" Consumer Credit Outstanding in Canada.

Appendix "E" Shareholders of H. Bell Finance Limited, New Westminster, B.C.

Appendix "F" Small Loans Act—Licences Terminated and the Reasons therefor.

Appendix "G" Summary of Maximum Permissible Charges and Maximum Loan under Small Loans Laws of the Several States of the U.S.A.

Mr. MacGregor continued reading his statement on the Small Loans Act and was questioned thereon.

It was moved by Mr. Thatcher, seconded by Mr. Balcom,

That Merchants Finance Limited be invited to appear before the Committee to explain its operations.

Following debate, the motion was resolved in the affirmative: *Yeas*, 10; *Nays*, 9.

On motion of Mr. Regier, seconded by Mr. Argue,

Resolved,—That Mr. MacGregor be asked to supply members of the Committee with the detailed financial statement of Merchants Finance Limited.

Following debate, it was moved by Mr. Cameron (*Nanaimo*), seconded by Mr. Regier,

That Mr. MacGregor be allowed from now on to read his statement uninterrupted, and that members reserve their questions until after it is concluded.

The said motion was negatived: *Yeas*, 8; *Nays*, 10.

The Committee agreed that, as the presentation of Mr. MacGregor's statement had been interrupted by lengthy questioning during several meetings, on its completion it be printed in its entirety as an appendix to that day's Minutes of Proceedings and Evidence.

Mr. MacGregor being still before the Committee, at 1.00 o'clock p.m., it adjourned until 3.30 o'clock this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Ashbourne, Balcom, Benidickson, Blackmore, Cameron (*Nanaimo*), Enfield, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hunter, Matheson, Michener, Monteith, Philpott, Quelch, Regier and Thatcher.

In attendance: The same as at the morning sitting.

Mr. MacGregor continued reading his statement and answering questions thereon. During the course of his evidence, he tabled the annual statement of Merchants Finance Limited for the year ended December 31, 1955. The Committee agreed that the said statement be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix "H".*)

At 5.30 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. on Tuesday, July 17, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, JULY 12, 1956
11 A.M.

The CHAIRMAN: Gentlemen, we have a quorum.

The subcommittee on agenda and procedure begs leave to present its fourth report, as follows:

(For report of subcommittee see Minutes of Proceedings of this day.)

Those in favour of accepting this report? Contrary if any?

I declare the report adopted.

Mr. THATCHER: At the last meeting Mr. MacGregor agreed to table the comparative American and British rates on small loans. Do I take it that this document here is the American table?

The CHAIRMAN: That is not Mr. MacGregor's report. That was furnished by the Canadian Consumer Loan Association. However, I believe Mr. MacGregor has a similar report.

Mr. THATCHER: Would he care to comment on it at this point?

The CHAIRMAN: Perhaps we had better first of all allow Mr. MacGregor to table his reports.

Mr. THATCHER: Yes. Then I have several questions which I wish to ask.

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman, during the previous meetings of the committee several questions were raised on which I undertook to furnish some additional information. I have been preparing this information as we have been going along and I had intended to wait until the end of my evidence to table it. However, members may wish to have some of it earlier and, with your permission, I should like to table now several exhibits in answer to the questions which have been raised at previous meetings.

First, of all, considerable interest was shown in the licensees that are owned, directly or indirectly, by U.S. parents. At the first meeting I named those licensees, but I thought that it might be more convenient for you if they were put in the form of a table. Therefore, Exhibit "A" shows the licensees owned directly or indirectly by U.S. parent companies as at December 31, 1955.

Some interest was also shown in the extent to which the parent companies in these cases are closely owned or publicly owned. Consequently, I have included in Exhibit "A" columns showing the number of common shareholders in the parent company and the exchanges on which the shares of the parent company are listed.

Secondly, some questions were raised concerning the extent of the borrowed money supplied by these U.S. parent companies to their Canadian subsidiaries, and also the extent of the paid capital put up by the U.S. parents.

Also, some questions were raised concerning the income taxes and salaries that are paid by these U.S.-owned licensees. Exhibit "B", therefore, is an

abstract of the 1955 financial statements of licensees owned, directly or indirectly by U.S. parent companies. I think that all the information which has been asked for is included in this exhibit.

Thirdly, a question was raised concerning the increase in the number of lending offices of licensees in comparison with the number of branches of the chartered banks in Canada, and in comparison with the number of credit unions in Canada, during the last few years. Exhibit "C" shows the number of offices in Canada of chartered banks, credit unions, and licensees under the Small Loans Act as at the end of 1950, 1953, 1954 and 1955. Unfortunately, the final figures for credit unions are not yet available at the end of 1955, but I have given the figures for other years.

Fourthly, a question was raised concerning the trend of personal loans in Canada, that is to say, the increase in the volume of personal loans in Canada in recent years as compared with the trend of consumer credit generally in Canada.

Exhibit "D" shows the consumer credit outstanding in Canada from 1950 to 1955 by quarter-year, and it shows separately charge accounts, instalment credit in the form of balances outstanding on retail dealers' books, finance companies, and, finally, cash personal loans. This exhibit has been taken from the Canadian statistical summary of May, 1956, published by the Dominion Bureau of Statistics.

Fifthly, a question was raised concerning the shareholders of H. Bell Finance Limited, and Exhibit "E" gives this information.

Sixthly, some honourable members wished to know what had happened to the 51 licensees whose licences have terminated since the Small Loans Act was passed in 1939. There have been 124 licences issued; 51 have terminated and 73 are presently outstanding. Exhibit "F", therefore, shows individually the names of the licensees whose licences have terminated and the reasons therefor are indicated.

Mr. FLEMING: May I ask a question about the reasons? What is the source of this information about the reasons which you have given? Or, can you give us some examples of the types of reasons which appear in your exhibits?

The CHAIRMAN: Could we let Mr. MacGregor finish tabling these first?

The WITNESS: I can easily answer that question. I have divided the reasons into five main groups. The first group of licensees includes change of name or reorganization where, for example, partnerships became incorporated. The second includes licensees which voluntarily discontinued making new small loans, but continued to carry existing loans on the books until such were liquidated, and they continued to transact any other kind of business that they had been transacting. Third, small loans sold to another licensee. Fourth, voluntary liquidation of business of a licensee, which would mean complete liquidation. Fifth, licences terminated at the instance of the department. In the fourth and fifth groups I have indicated the extent of the impairment of capital and in the case of the fifth group the reason why the department took action. The table also shows, in addition to the name of the licensee, the location of the head office, the date the licence was granted and the date on which the licence terminated.

Seventhly, a question was raised at the last meeting concerning the maximum permissible charges in the several states of the U.S.A. Exhibit "G" gives a summary of the maximum permissible charges and maximum loan under the small loans laws of the several states of the U.S.A., divided into five main categories. First, the states that charge flat monthly rates; second, the states that charge graded monthly rates; third, the states that charge a combination of interest and fees; fourth, the states that have laws that are largely or wholly inoperative; and, fifth, the states that have no small loans laws at all.

I might mention that the summary covers all forty-eight states and the District of Columbia, Alaska and Hawaii. I think that it is complete and up-to-date to the extent of any information that is available at the present time.

The CHAIRMAN: Gentlemen, are we to publish these exhibits as appendices to today's proceedings?

Agreed.

(See Exhibits "A" to "G".)

The WITNESS: May I please make a correction? Mr. Humphrys reminds me that, in describing these several groups, I used the expression "the states that charge certain rates". Of course, I should have said "states that authorize these maximum permissible rates".

By Mr. Thatcher:

Q. Mr. Chairman, I should like to ask Mr. MacGregor for certain information on these American rates. At the last meeting he told us that the rates in Great Britain were 4 per cent; or at least that was the maximum ceiling. Is that correct?—A. No. I said there is no legislative maximum rate in the Money-Lenders Act in Great Britain; but 4 per cent per month is mentioned as the turning-point for proving whether the rate charged is usurious or not. If the rate charged is more than 4 per cent it is presumed to be usurious unless the lender can prove otherwise. If it is less than 4 per cent, then it is up to the borrower to prove that the rate is usurious.

Q. In a nutshell, does that not mean that the present small loans rates in Britain are about double what they are in Canada under the old act?—A. I could not say. I cannot speak with enough authority on the British situation. I do know this, however, that when the Money-Lenders Act was under discussion it was proposed, in the original bill, to fix a legislative maximum of 15 per cent per annum and the lenders strenuously opposed that rate, claiming that 60 per cent per annum was essential to their continuance in operation. In Britain they decided, in 1927, to continue as theretofore and to specify no maximum rate, leaving it really to the courts to get behind a contract to determine whether it was usurious or not.

Q. But actually their legislative maximum is 4 per cent as compared to 2 per cent in Canada?—A. I should not like to look upon it in that way.

Mr. MICHENER: There is no speed limit in Great Britain, but you drive at a reasonable speed. Likewise, I think, in lending there is no legislative lending limit, but if you charge more than 4% per month, you have to be able to justify the rate the same as you have to show that your speed is justifiable, in the circumstances.

By Mr. Thatcher:

Q. Nevertheless, the rate is 4 per cent. They cannot charge more than 4 per cent?—A. Yes, they may charge more than 4 per cent.

By Mr. Fleming:

Q. Is it not the difference between a fixed maximum ceiling under our law so that any charge above that rate is an offence against the law on the one hand and, on the other hand, in Great Britain the effect of exceeding the maximum, as it may be called, is simply that the onus of justifying the charge is on the lender, whereas up to that point it does not rest on the lender?—A. That is right.

By Mr. Argue:

Q. But our maximum is on loans up to \$500 only?—A. The 4 per cent, I believe, is mentioned in the Money-Lenders Act in Great Britain simply as a rough guide to the courts.

By Mr. Cameron (Nanaimo):

Q. And that covers loans of any size?—A. Yes.

By Mr. Thatcher:

Q. Coming now to the U.S. rates, this pamphlet shows that the American rates are quite considerably above present Canadian rates. In five states I see the maximum is $3\frac{1}{2}$ per cent; in a great many, 3 per cent; in some, 2 per cent on smaller amounts; and in the odd one $1\frac{1}{2}$ per cent. But, by and large, I cannot see any cases where American rates are lower than comparable Canadian rates under the old legislation. My question is this: if the British rates are higher—and I cannot see from discussion that they are not—and in view of the fact that American rates are so much higher than our present Canadian rates, how do you arrive at your conclusion that our present rates should be further reduced at this time? Are there different economic conditions in Canada to those which exist in Britain or in the United States?—A. I should not like to discuss in detail the conditions in the United Kingdom. As far as the U.S.A. is concerned, the maximum permissible rates there have, in the past, generally been higher than in Canada. They were substantially higher in the U.S.A. in 1939 when the Small Loans Act was passed here. However, the trend in the U.S.A. has been towards lower maximum permissible rates.

Q. The trend at the moment is that they are still very much higher.—A. Most of them are higher. On the other hand, there are some states where the maximum permissible rates are comparable. Massachusetts has a 2 per cent maximum rate. I know that the lenders may say that lending conditions are perhaps unsatisfactory in Massachusetts and that it permits only marginal operations. In New York state the maximum permissible rate is not much above 2 per cent. It is $2\frac{1}{2}$ per cent on the first \$100 of any loan, and then it is 2 per cent on the next \$200 up to \$300, and then it is only $\frac{1}{2}$ of 1 per cent from \$300 to \$500. I understand that there are about six licensees operating in the state of New York that charge less than those maximum rates now.

Q. I believe that is possible, but the legislative maximums are higher, are they not?—A. Perhaps I might finish my statement. Those six licensees, I understand, charge only 2 per cent on the first \$300 and $\frac{1}{2}$ of 1 per cent on any element of the loan above \$300 up to \$500.

By Mr. Regier:

Q. When you consider the size of the average loan made today, would you say that rates in the United States are higher than in Canada?—A. I think that that is quite a good question, because the average size of the loan and the maximum permissible loan have a very important bearing on the rates that should be charged. In general, the maximum size of loan to which the act applies in the United States has, in the past, generally been lower than in Canada. That is to say, when our act was passed fixing \$500 as the limit, most states had a limit of \$300. There has been a trend more recently in the U.S.A. to extend the scope of the acts.

By Mr. Thatcher:

Q. In view of the rates on this table and in view of what you told us about British rates, do you feel that there are any special circumstances in Canada which would permit Canadian companies to operate more efficiently than their counterparts in either the U.S.A. or Britain?—A. Yes, I do. In the first place, expenses have been generally less in Canada than in the U.S.A.; secondly, the rate of losses or write-off has been less in Canada than in the U.S.A.; thirdly, I think that the licensed operators in Canada as a whole are of more substantial

size than many that are licensed in the United States, and the larger they are, the more efficient their operations. Offhand, I would mention those as the three main reasons why I think the maximum rate in Canada might well be, and should be, lower than in many states of the U.S.A.

Q. There was one question following some remarks Mr. MacGregor made at the last meeting which I would like to pursue at this moment, if you have no objection, Mr. Chairman.

The CHAIRMAN: Go ahead.

By Mr. Thatcher:

Q. According to a Canadian press dispatch of the proceedings at the last meeting, Mr. MacGregor said that there was one firm which charged 85 per cent interest. I think it was the Merchants Finance Limited, of Toronto. I would have thought that such a charge was in conflict with the existing laws. How can they charge 85 per cent?—A. The report to which you refer, Mr. Thatcher, stemmed, I think, from a question that Mr. Argue asked. Some honourable member asked me to name the licensees that are charging more than 2 per cent per month for loans over \$500, being loans in the unregulated area. I mentioned the names of three licensees and the one to which you referred was said to operate under a system which frequently involved a monthly rate of about 3 per cent. I did say, however, that by reason of not making appropriate refunds where loans are refinanced, we have seen instances—and we have received complaints from borrowers—which showed that, taking all factors into account, namely the amount of cash in hand, the time, the percentage originally charged and the lack of an appropriate refund, the effective rate over a series of perhaps six or seven successive loans was about 5 per cent per month. Mr. Argue asked me what this rate would be on an effective annual basis, and I said, I think, that I would have to look it up, but if I were asked to guess it might be about 85 per cent. Actually, it would be 80 per cent.

Q. If that rate is being charged I think it is scandalous. On the other hand, if the report should be incorrect, I think it is a pretty rough slur on a Canadian business company, and I would think that this particular company should have an opportunity of making a reply.—A. I certainly have no objection whatsoever.

Q. I would like to know if Mr. MacGregor can tell the committee on what do they make this charge? Would it be on second mortgages or third mortgages?—A. Those questions were all raised at the last meeting. I think they are all answered on the record. However, I would be glad to summarize what I think I said. It might be, but not necessarily, a second mortgage. One particular case which I have in mind was a case where the loan was secured by an endorser and by a chattel mortgage on the borrower's furniture, and there was a mortgage on his truck.

By Mr. Argue:

Q. And the rate was 5 per cent?—A. The effective rate over-all was about 5 per cent per month.

By Mr. Thatcher:

Q. Would that include out-of-pocket expenses, such as legal fees, searching fees, and things like that?—A. It would include everything.

Q. Is this particular case an isolated case?—A. Yes. I mentioned at the last meeting that that case was not typical of the industry.

Q. Would you care to make a rough estimate as to what percentage of the business is done by the three companies you mentioned, as compared with

the over-all business done in the small loan field?—A. Offhand, I would say it is infinitesimal.

Q. I think, Mr. Chairman, that the committee would not object to this Merchants Finance Company being brought here at one time or another. If they are charging 85 per cent we should know about it. I still cannot believe—

The CHAIRMAN: Mr. Thatcher, that can be raised at the agenda sub-committee meeting. I have had no request from the Merchants Finance Company, and until I do receive a request from them—I understand it is up to this committee to ask them to come, and unless the agenda sub-committee so decides—

Mr. FLEMING: I intended to raise this matter myself and to make a suggestion about it today, because, just at the end of the last meeting when we were reaching this subject, I asked what I think was the final question of Mr. MacGregor. I asked how a company charging rates like that, even in some cases, could stay in business in competition with other companies which are charging statutory or lower rates, unless it was in a highly specialized type of lending business; and Mr. MacGregor made his answer to that question. I would go further, I think, than Mr. Thatcher has gone in his suggestion—and I had intended to put this forward today. I think we should go beyond just affording this company the opportunity of coming here and making a statement on this subject if it chooses to do so. I think this company should be asked to come here and make a statement on the matter.

Mr. THATCHER: Absolutely!

Mr. FLEMING: It is quite possible that too much emphasis might be attached to what Mr. MacGregor has referred to as something which is infinitesimal in relation to the whole lending field. Nevertheless, in order that we may have complete accuracy and also see some of this company's operation in their true and accurate perspective, I think we should ask the company to come here. It may be, as Mr. MacGregor's statement here this morning suggests, that in these rates there are disbursements involved in relation to lending on second and third mortgages on real estate; there may be legal fees with regard to searching title and things of that kind; but the figures are so out of line with the figures we have seen with regard to other transactions of this sort that I do not think we should proceed very far without having a detailed explanation of this particular operation, even if it arises in only a few scattered cases. We want to see this matter in its correct perspective and not attach to others, perhaps, some invidious conclusions that could be certainly drawn if the facts as we have been given them are correct. Therefore, Mr. Chairman, I think that, either here or in the agenda sub-committee, this company should be asked to come before this committee and give us a complete statement on their operations.

The WITNESS: I would certainly have no objection, Mr. Fleming. It is up to the committee whether they want to hear this company or not.

By Mr. Cameron (Nanaimo):

Q. Mr. Chairman, I should like to ask whether Mr. MacGregor has on file the full financial statement of this company?—A. Yes.

Q. And that would reveal their operations effectively to the committee?—A. Yes.

By Mr. Regier:

Q. What are the wages that the company paid to the top officers and directors? I think that would supply the answer to the whole problem as to why this company is charging these fees. I think it is simply a waste of time to bring this company here. I think all we want to know is the detailed financial statement of this company; when we have that we shall have the answer.

The CHAIRMAN: All I can say is that you take a much simpler view of the balance sheet and of the financial statement than I do, if you think one little item on it shows the picture.

Mr. REGIER: I asked for this detailed financial statement last time we met, Mr. Chairman, but I think Mr. MacGregor misunderstood me slightly and said it was included in this document here, the 1954 report of his department. It is not, in fact, included; only the highlights are given there, and I think that if we had this information available there would not be a member who would want the committee to waste its time further.

Mr. THATCHER: I would like to move, Mr. Chairman, that the Merchants Finance Limited be invited to appear before the committee at an early opportunity. Mr. Balcom is willing to second the motion.

Mr. FOLLWELL: Before that motion is put—I think Mr. MacGregor gave us an instance of other companies which were charging more than the permissible rate, and if we are going to call the Merchants Finance Limited, maybe it would be well to invite all the companies. Mr. MacGregor gave us the names of three companies, I think and I believe he intimated there was one other—

The CHAIRMAN: I do not think "permissible" is the right word.

The WITNESS: That is correct, Mr. Chairman. These lenders referred to are in the unregulated field—the field of loans above \$500—so there is no maximum permissible rate in the true sense of the word. The other two companies I mentioned charge very little more than 2 per cent per month.

Mr. FOLLWELL: Then Mr. MacGregor is indicating that this company is the only one he feels might be of concern to him and his department with regard to the charges?

Mr. CAMERON (*Nanaimo*): No—

The WITNESS: I would say that its practices and charges have given us a good deal more concern than those of any other licensee.

Mr. ARGUE: On the motion itself, Mr. Chairman, I would prefer to see a very thorough inquiry and everyone interviewed who might be involved, but I am afraid that if we begin at this late stage inviting a great number of additional witnesses besides those who have already been invited to appear before us, the will, as I take it, of the House of Commons when they passed the second reading of this bill, namely that this committee should complete a study of the bill itself, would be impossible to carry out effectively, and if I have adjudged the vote rightly in the house I think it was a directive to this committee to get on with its business. The association which, as I understand it, represents all these various companies—the Canadian Consumer Loan Association—represents the companies initially at any rate and could appear on behalf of all of them including this company. If there were time to hear Merchants Finance Limited during this session and still get this legislation out of the committee, I would be all in favour of it, but I do not think we should hear a whole lot of witnesses if that is going to result in the killing of this bill.

Mr. QUELCH: I think it would be better if Mr. MacGregor were, first of all, to supply us with a detailed statement with regard to the affairs of this company. Then, if we were not satisfied after studying that statement we might consider calling the company before the committee, and we would be in a much more favourable position to do so. I think it would be just a waste of time to do so at this stage.

Mr. MICHENER: I noticed in the press some comments by the president of this company on our last proceedings, and I think in fairness to him he ought to have an invitation to appear before this committee; whether he wants to or not is a matter for him to decide. I support the motion that he be invited to come.

Mr. HOLLINGWORTH: Has this gentleman got in touch with the committee at all?

The CHAIRMAN: He has not got in touch with me. I stated earlier that that was the case, but the CCF members always say we should call whomever the committee desires, whether they communicate with us or not.

Mr. CAMERON (*Nanaimo*): I would suggest you confine yourself to your business as chairman.

The CHAIRMAN: That is what I am doing.

Mr. PHILPOTT: I do not object to this company coming here to give evidence if they want to come, but I do not see why we should go out of our way to bring in more witnesses than we have already. I think this committee is not getting down to the task assigned to us by the House of Commons. We are wasting our time in considering a whole lot of petty details which have no bearing on the main question, which is whether the rates now authorized in Canada enable a proper small loans business for the whole of the Canadian public to be carried out at a fair rate, and at a rate which will enable not only the big American companies but also some of the smaller private companies to stay in business. I for one believe we should, with all possible speed, get down to the evidence which has a bearing on the question we have to decide. We are not a court of law set up to try some two-penny-halfpenny company which has been "gypping" someone at the rate of 80 per cent a year. We have to decide questions of principle and I am all in favour of getting down to the evidence which will help us to do our job.

Mr. CAMERON (*Nanaimo*): I would move an amendment to the motion, namely that Mr. MacGregor be asked to supply the committee with a detailed financial statement with regard to this company's operations.

The CHAIRMAN: That is hardly an amendment, is it? I do not regard that as an amendment; it is a new motion.

Mr. HOLLINGSWORTH: I do not think, Mr. Chairman, that this company should be called unless they ask to come, and I would vote against Mr. Thatcher's motion.

The CHAIRMAN: The simple way to solve this question would be to put the motion. The question is: that Merchants Finance Limited be invited to appear before this committee to explain its operations.

The CHAIRMAN: I declare the motion carried.

Mr. REGIER: I would like a recorded vote on that, Mr. Chairman.

Mr. FLEMING: It is too late. That request should have been made before the vote was taken. You cannot take the vote twice. It is too late to ask for a recorded vote at this point.

The CHAIRMAN: You are quite right, Mr. Fleming; the request should have been made earlier.

Mr. FLEMING: If there is any concern about the appearance of this witness for the company causing any delay in our proceedings, I may say I am sure we could arrange an extra meeting for the purpose of hearing him. There is no reason to expect that it need be long. I am sure that members of the committee will appreciate, in view of the publicity which this matter has received, that we cannot overlook it and let it go by without any further consideration.

Mr. BENEDICKSON: I was going to suggest this, Mr. Chairman, but I rose a little late, just as the vote was being taken: the committee has been content so far to leave decisions of this kind to the subcommittee. Nothing was contained in the motion which refers to the time of hearing a representative of this company but I assume that Mr. Thatcher would be willing to leave the appropriateness of the time of calling this witness to the subcommittee?

Mr. THATCHER: That is quite agreeable—some time this session.

Mr. REGIER: I would like to move that Mr. MacGregor be asked to supply members of the committee with the detailed financial statement of Merchants Finance Limited. Mr. Cameron (*Nanaimo*) seconds the motion.

Motion put.

The CHAIRMAN: I declare the motion carried.

Mr. FOLLWELL: Before we leave this matter I think it would be interesting to the committee if Mr. MacGregor could tell us how many complaints have been received under the act. We have heard about a company charging 80 per cent interest, but it may be we are getting exercised about something which nobody seems to care about. I would like to know how many complaints he has received from individuals, for instance, with regard to the way in which they are treated by some of these companies.

The WITNESS: We have had extremely few complaints from borrowers in the regulated field—the area of loans of \$500 or less. We have had relatively few complaints even in the field above \$500, but I would say that the most serious complaints have involved the licensee mentioned.

By Mr. Quelch:

Q. Actually, would many borrowers even know who would be the right person to appeal to?—A. Probably not.

By Mr. Fleming:

Q. In order that we might know what weight to put on the last answer, have you prepared a catalogue at any time listing the number of complaints you have received?—A. No, we have not.

Q. Is it fair to ask whether you could make an estimate of the number you have received in the last year or two?—A. I should hesitate to do so. I hesitate to mention Toronto here—

Q. Everybody else mentions it, so there is no reason why you should not!—A.—but our department has a branch office in Toronto and the members of our examination staff in Toronto naturally receive a good many complaints directly there from people in Toronto, and in most cases those inquiries or complaints relate to loans above \$500. Of course, there is nothing we can really do in such cases, because there is no statutory maximum rate applicable. We do not make any record of those complaints unless they are serious, and then, of course, the Toronto branch relates the substance of the complaints to us. In some cases the borrower writes directly to us. I can give details of specific cases involving this licensee—

Q. I take it that some of the complaints are made orally, in the case of Toronto, and that there might or might not be a record kept of those in any form; also, that you have received some complaints in writing. Is it possible to give us with any degree of accuracy either a computation or an estimate as to the number of complaints you have received in any period of time, let us say during the last year or during the last couple of years, with respect to loans in the bracket up to \$500 and again in the bracket above \$500?—A. So far as loans up to \$500 are concerned there have been practically none. As far as other complaints go we find, most often, that they relate to the refusal of the licensee to make an appropriate reduction where a charge has been made in advance, and that applies also in conditional sale agreements where we have no jurisdiction whatsoever. That is a common feature of complaints. An aggregate charge is made in advance and included in the note and where a borrower wishes to prepay his loan the lender sometimes refuses to give him

a refund on the aggregate charge imposed at the outset. But we do not actually receive very many complaints. I think that is the fairest answer I can give to that question.

The CHAIRMAN: Do they have a tendency in the unregulated area to charge a bonus if borrowers pay in advance in the same way as mortgage companies charge a 3 per cent bonus to prevent borrowers having a period in which to invest their money?

WITNESS: Many operators in this field do not charge interest in arrears based upon the actual amount advanced and the remainder outstanding from time to time. In other words, they do not charge interest as and when it accrues having regard to the actual amount of the loan or the remainder continuing outstanding, but they impose an aggregate charge which is included in the note signed at the outset. If the loan were for \$1,000 for one year they might add on a charge of \$130 and the borrower would sign a note for \$1,130 repayable for 12 equal monthly instalments which would, of course, include the aggregate charge for the loan for the full term. If that borrower wishes to prepay this note during its currency he ought to receive the benefit of an adjustment because of the part of the charge originally included in his note which has not been earned.

By Mr. Monteith:

Q. Is that the reason why you say that the 5 per cent per month basis aggregates an annual rate of 80 per cent?—A. That is the main reason.

Q. This does not apply, presumably, under the Small Loans Act with regard to amounts less than \$500?—A. Licencees cannot operate that way in making loans of \$500 or less.

By Mr. Michener:

Q. I suppose you might get an astronomical rate of interest if a borrower repaid his loan the day after receiving it?—A. That might be so.

Q. Is a licensed lender required to inform the public that he is a licensed lender, or if he is not required to do this does he, in practice, say that he is licensed by your department?—A. He is not required to do so. He may however, advertise the fact that he is licensed.

Q. There is no limitation on his advertising to the effect that he must say he is licensed?—A. Only in this respect: very soon after the act was passed in 1939 the department issued a circular to licencees governing advertising and one of the suggestions made was this—that if licencees lend in amounts over \$500 and advertise such loans, no reference to the licence should appear in such advertisements, whether or not loans of \$500 or less are referred to. This rule, the circular stated, would apply also to the advertising of any other portion of the company's business which is not regulated by the act. In other words a licencee may only refer to the fact that he is licensed if the advertising relates only to the regulated area of loans under \$500.

Q. Do you know whether licencees make reference to the fact that they are licensed as a matter of practice?—A. I think there was a greater tendency to do so in the earlier years than there is now.

The CHAIRMAN: There is no prohibition against it?

The WITNESS: No.

The CHAIRMAN: But you do not want them to give the public an understanding that you are supervising these loans?

The WITNESS: The whole purpose of this circular was to avoid misunderstanding.

By Mr. Fleming:

Q. You referred in your earlier remarks, Mr. MacGregor to the contents of this circular being a "suggestion" but I notice that the extract which you quoted refers to itself as a "ruling".—A. The latter word was that of a predecessor of mine and it was referred to in the memorandum as such. We have regarded it as a ruling.

By Mr. Follwell:

Q. To get back to complaints and the number of complaints you have received—I think the witness indicated to the committee that one of the exhibits he was going to put before us, as an appendix, was a statement indicating that there had been certain cancellations of licences. I wonder if you could not, perhaps, anticipate that exhibit and tell us how many cancellations have been made in respect of violations of the act and also if there were any prosecutions of the licensees by the department.—A. Only in three of the 51 cases of termination were licences terminated at the instance of the department and only in one case because of a violation of the act. The Monarch Finance Company in Sudbury was charging excessive rates; it was prosecuted for doing so in 1940, and its licence was terminated. That is the only case. There have however been other prosecutions under the act. Speaking from memory, there have been about five in all, including this one. I think four were won and the fifth was lost. But the other four were against unlicensed operators. There is only one case of the prosecution of a licensed lender.

Q. And as a result the licence was cancelled?—A. Yes.

By Mr. Monteith:

Q. And two others were cancelled without prosecution?—A. Not because they were charging excessive rates but because of the financial position of the licensee—capital was seriously impaired and one case debentures were outstanding. I might say that several licenses were voluntarily terminated within a year of the company's obtaining the license in 1940 mainly because their capital was impaired.

Q. So in the 17 years of your experience you have only prosecuted four times?—A. Five times.

Q. And only once have you had to cancel a licence because a company was charging excessive rates?—A. That is correct.

Q. They must have a respect for your department.

By Mr. Hollingworth:

Q. Mr. MacGregor, can you prosecute a licensee for charging excessive rates of interest on a loan of over \$500?—A. No, we cannot. We have, of course, for a long time expressed the view to licensees that they ought not to charge a higher rate of interest for loans above \$500 than the maximum permissible rate under the Small Loans Act for loans of \$500 or less, and in practically every case the licensees do not charge more. I have mentioned that only three in fact, charge more for a loan in the unregulated area.

By Mr. Monteith:

Q. Have you any responsibilities under the Interest Act?—A. No, we have none at all.

By Mr. Fleming:

Q. One other question before you go on. No one, I think, can fail to be impressed by what you have just said about the observance of the act. That is quite apart from the question of enlarging the scope of the act—I am expressing

no opinion on that. Have there been at any time in your experience any suggestions for the amendment of the act apart from amendments pertaining to the permissible rate of interest or the size of the loan on which the interest rate should be regulated?—A. I cannot recall any other suggestion, Mr. Fleming. The main suggestion that has been made is that the scope of the act should be extended to cover a larger sum.

Q. But leaving the framework of the act untouched—in other words, you have no suggestion apart from those pertaining to the rate of interest or the area within which regulation of the rate should be applied?—A. Perhaps I should amplify my previous answer slightly by saying we have recently received a suggestion from one lender that they should be permitted to pre-compute charges along the lines I have mentioned concerning the practice currently being followed by several lenders in the unregulated field, but I can only say that in my personal opinion the present rule in the act is much more satisfactory.

Q. As permitting greater clarity of understanding on the part of the borrower as to the rate of interest he is being asked to pay?—A. And as to the charge that the borrower will actually pay. Under the method prescribed at the present time in the event of prepayment of the loan, or of refinancing, a borrower pays only for the actual amount of cash in his hands from time to time.

Q. And aside from that one suggestion the framework of the act has not been the subject of any requests for change?—A. No, sir.

By Mr. Follwell:

Q. Is it a fact that the way in which the Bank of Commerce does business at the present time is to pre-compute with interest?—A. The bank you refer to deducts interest in advance at the rate of 6 per cent of the face amount of the loan.

Q. Which, of course, becomes a much higher effective rate?—A. If you were to borrow \$100, for example, 6 per cent would be deducted in advance. The payments are made into a deposit account and interest is allowed at the current rate on the payments as you make them.

Q. The charge is made in advance, in that case?—A. Yes.

Q. Is it a fact, too, that insurance companies, on the basis of accepting premium contracts on a monthly rather than on a yearly basis, would reach an interest rate of about 16 per cent?—A. It is a little difficult to answer that question in a few words because something more than interest is involved. If a person is paying on a monthly basis for his life insurance—and I think this is what you are referring to—if he dies the account is cleared, so there is a mortality risk involved as well as an interest risk.

Q. But taking it purely on the basis of an annual fee rather than on a premium basis spread over the 12 month period—in some cases, of course, they have an industrial section which collects every week—I presume that on that basis you would find that the interest rate would be pretty high?—A. Some might add 6 per cent to the annual rate and divide by 12 to get the monthly premium, in which case the effective rate might be of the order that you mentioned.

By Mr. Fleming:

Q. I would like to raise one point with regard to your previous answer about the practice of the Bank of Commerce in regard to allowing interest on monthly payments that go into the account. Are you quite sure you are correct on that point? We heard evidence in this committee two years ago from the

Bank of Commerce in regard to its small loans business and, while I am speaking now only from memory, I wonder if you are right about that? Are you speaking with certainty?—A. I did not intend to describe precisely their method of operation. I had in mind giving only a general outline of it. I am not sure, frankly, in what respect you think my statement was inaccurate. Perhaps you could clarify the point.

Q. You said, with assurance, I think, to Mr. Follwell that the bank did credit interest on the monthly payments into the account.

The CHAIRMAN: I do not think he said that—

Mr. FLEMING: I may have heard you incorrectly, due, possibly, to the bad acoustics of this room to which we are all subject.

Mr. CAMERON (*Nanaimo*): Are we not having a witness from the Bank of Commerce before the committee? I would suggest that this question could be asked of him.

Mr. FLEMING: That is why I think it would have been better if this question had not been asked of Mr. MacGregor. However, I am not sure that that answer was right and I would just enter that caveat. Perhaps we had better leave the point to be cleared up by the bank later.

Mr. QUELCH: The effective rate was 10.46 per cent, I think.

By Mr. Fleming:

Q. I think they got a nominal rate of 6 per cent increasing to 10.46 per cent by two ways. One was that the interest was charged in advance; it was deducted at the time the loan was made; and second—and here is where my recollection may be at variance with that of Mr. MacGregor—that no interest was allowed on the monthly repayments that went into the account until the account was paid—A. Your question then relates simply to the time that interest is credited to the account, not to whether it is credited or not?

Q. No, I think there is a point of difference there. I am speaking only from recollection, and I do not want to prolong this, but I do not want your answer just to go down as a prepared statement of fact based on knowledge or inquiry.—A. It is not based on a specific inquiry, but it is general knowledge.

Q. Perhaps we had better leave the point.

The CHAIRMAN: Are there any further questions? Let us get on.

The WITNESS: Might I simply quote this extract which I think will clarify the last point? I quote from appendix "A" to Mr. McKinnon's statement before this committee in 1954 under the heading: Method of Operation, and the subheading: Scale of Charges.

A scale of charges was designed which it was thought would cover operating costs with a small margin of profit provided that the utmost care was used in controlling expense. These charges were based on a discount rate of 6 per cent per annum for loans payable up to 12, 18 or 24 months. The borrower was required to undertake to make equal monthly deposits in a savings account to provide an amount sufficient to repay the loan at maturity.

He then gives an example of a loan of \$240 discounted at 6 per cent. The net proceeds paid to the borrower are \$225.60. Then he goes on to say:

Deposits of \$20 monthly are required in a savings account which will accumulate a balance sufficient to repay the loan at the end of one year.

The total amount required to be repaid in this example is \$240. Interest is paid to the borrower on the savings account at the current rate.

I would prefer to leave the details for the bank to explain, but that was my general understanding—that they credit the usual savings rate of interest to the account.

At the last meeting—and I have also done the same at this meeting—I made a few remarks concerning the rates being charged by licensees for loans in the unregulated area above \$500, and I mentioned at the last meeting certain licensees who are charging less than 2 per cent per month. Five of them were named in my statement at that time. The question was asked: what proportion of the loans in the unregulated area would be made by those five licensees who are currently charging less than 2 per cent per month? I said that I could not give precise information but I might guess that the percentage would be of the order of 25 to 30 per cent. I find that the actual percentage of the loans made by the five licensees named, Personal, Commercial Credit, Canadian Acceptance, Niagara and Union, related to the total loans of over \$500 made by all licensees and Household Finance Corporation Limited would be 37 per cent. However I would mention again, of course, the fact that that leaves out of account the loans made in the unregulated area by lenders who are not licensed under the act at all. I recall that at an earlier meeting the question was also raised whether there were in fact any lenders operating in the area above \$500 or, if so, whether the number was very small or comparatively large. I would suggest that the number is quite substantial, and if one refers to the yellow pages of the telephone directory for such cities as Vancouver, Winnipeg, Toronto and Montreal, one will find a great many lenders listed, including advertisements relating to many that are not licensed under the Small Loans Act; and it is quite clear in some cases that that is so because the advertisements state that they lend only in the area above \$500.

By Mr. Fraser (St. John's East):

Q. What proportion of the business over \$500 do these people do—could the witness tell us?—A. I have no information and I do not think anybody could answer that question. Such information is not available. These unlicensed lenders do not report to anyone, and no consolidated data are available to my knowledge.

By Mr. Hollingworth:

Q. Have you any idea of the range of loans these people give? Do they go up to \$1500, or \$4500?—A. I saw one advertisement—I do not know whether this will answer your question—where the lender was offering loans up to \$100,000.

By Mr. Cameron (Nanaimo):

Q. Have you had any complaints from borrowers about the nature of the advertising? There are some advertisements which might confuse the borrower as to the actual rate of interest payable on these loans.—A. No, I do not recall that we have—

The CHAIRMAN: Advertising is dealt with on the next page of Mr. MacGregor's statement.

Mr. FLEMING: Mr. MacGregor, in the middle of page 27 of your statement you state:

Service Finance charges 2 per cent per month on loans up to \$200 and $1\frac{3}{4}$ per cent on loans over \$200, but in one particular locality the latter rate is reduced to $1\frac{1}{2}$ per cent.

What locality would that be?

The WITNESS: I do not think I have read that yet. I was just going to deal with that paragraph. I was going to mention that several licensees in the "all other" group also charge somewhat less than 2 per cent per month on the larger loans, but a few charge more. Equitable Finance charges only $1\frac{3}{4}$ per cent on small loans as well as loans over \$500. Maritime Finance charges 1.8

per cent on small loans and grades this down to 1.625 per cent for loans over \$500 for a term of 24 months and 1.50 per cent for a term of 30 months. Service Finance charges 2 per cent per month on loans up to \$200 and $1\frac{3}{4}$ per cent on loans over \$200; in one particular locality the latter rate is reduced to $1\frac{1}{2}$ per cent. That locality is the Kitchener-Waterloo area.

By Mr. Fleming:

Q. What is the reason?—A. I think one reason is that the operator is experimenting.

Q. Where is the head office of that company?—A. Weston, Ontario.

Q. There is not any question of more competition in that particular area dictating the policy of a local reduction in the interest?—A. No, I do not think so.

Q. On that point, is the competition among these various companies fairly well distributed across Canada? I am thinking now of the principal cities and urban areas.—A. I think that in the urban areas competition is pretty concentrated. All one need do is to walk up the main street, and one will find the offices of the main lenders all in close proximity.

Q. Yes, you can see it on Sparks street here.—A. I do not think that obtains to the same extent in the smaller centres where the so-called independent operators are more common.

Q. Well, I suppose there is a difference between the larger and the smaller centres, but may we take it that there is no such maldistribution of competition in the larger urban areas of Canada as to result in any local deviation in rates due to inequalities in competition?—A. No, I do not think so. If any particular locality is attractive I think lenders will not be long before they establish offices there, and if one of the larger operators establishes an office in some particular locality which seems attractive I do not think it will be very long before one or two competitors likewise establish offices there.

Q. There is nothing in this situation which in your experience accounted for any local difference in rates as compared with other urban areas elsewhere?—A. I do not think so. It would be exceptional.

By Mr. Follwell:

Q. Mr. Fleming mentioned that offices were being concentrated in urban areas, and that is natural, but is extensive use being made of the opportunity to borrow money by people engaged in agriculture? Do these companies lend to them?—A. Oh no, Mr. Follwell; the industry has always operated mainly in the urban areas.

MR. BENIDICKSON: The farmer has special legislation available to him—the Farm Improvement Loans Act and the Farm Loan Act.

THE WITNESS: One of the main things that has given rise to the industry has been the trend toward industrialization and the manner in which workers are paid. They are not so independent as rural folk who obviously have sustenance at least at most times.

MR. FOLLWELL: The point I am trying to make is that the farming economy seems to be somewhat depressed at the moment, and naturally there is need for the farmer to be able to get money as quickly and as easily as anyone else.—A. I think that the lenders are sufficiently on their toes that if any farming locality has a real need they will supply that need.

MR. QUELCH: You do not wish, surely, the farmers to make loans and borrow money at 23 per cent! They are having enough grief now!

By Mr. Argue:

Q. Mr. MacGregor is aware that, because of other legislation and other facilities, in the vast majority of instances farmers are able to obtain the same type of loans for probably 5 or 6 per cent for which the urban dweller has to pay 26 per cent through the small loans companies.—A. Farmers have never been frequent borrowers from the small loans companies as far as I am aware. The small loans companies have operated mainly in urban areas.

Q. One of the reasons would be that, if a farmer can obtain his credit needs at 5 or 6 per cent, he is not likely to pay a rate of 20 per cent.

The CHAIRMAN: I think that is a reasonable deduction, Mr. Argue.

Mr. FLEMING: That would commend itself even to the city dweller.

Mr. ARGUE: I want to point out that the man living in the city is getting beat. There is special legislation for the farmer, but there is no legislation in this field which has been established for the people in the city. It is a shame!

The CHAIRMAN: There is the Small Loans Act.

Mr. MICHENER: Mr. Chairman, I wonder if Mr. Argue would explain to me how the farmer can borrow under a comparable system at 5 per cent? I would like to know, I understand that a farmer cannot borrow, on comparable terms, for 5 per cent. Is that so? Can he make an unsecured personal loan at 5 per cent?

Mr. ARGUE: No, I do not think that he can. But a farmer is able to get probably 90 per cent of his credit needs—most of which is for machinery and repairs, improving his home, extension of facilities for the convenience of the farm family,—and he is able to get credit, in some instances, for the purchase of land—from the Canadian Farm Loan Board. So that, when he has to get a loan on his personal signature, he can very likely get it from the very same institutions which have already provided him with credit.

Mr. MICHENER: Perhaps Mr. MacGregor would give his opinion as to whether the two are comparable. I would have thought that a farmhand who was on a monthly salary would be in a comparable position to the worker in the city who is on a monthly salary, and who had about the same assets, and wanted to borrow. If you compare the farmer himself, who owns a farm, has grain and other chattels and securities, it would hardly be a fair comparison. I would like Mr. MacGregor to give his view about that.

Mr. GOUR (*Russell*): Mr. Chairman, Mr. Argue has given us a different picture of the farmer today.

The CHAIRMAN: I was delighted to hear him say that the farmer is so well off. It seems to me that his story is a little different today.

Mr. PHILPOTT: We are glad to see how drastically Mr. Argue has changed his opinion since the beginning of this session when he was talking about the inadequate bank loans, and when he was very violently criticizing the farm legislation which he now says is so good.

Mr. ARGUE: Mr. Chairman, I am sure Mr. Philpott knows that I was not referring to the legislation about which he was speaking at all. I was speaking of the Farm Improvement Loans Act, and I know Mr. Philpott, on one occasion, got up in a debate and started to deliver a speech which he had prepared to deliver in another debate; he has done much the same thing this morning.

The WITNESS: In answer to your question, I should not want to pose as an expert on farm economics or on farming. It does seem to me, however, from what has been said at this meeting, that the farmer is now pretty well provided for as far as borrowing facilities are concerned. I do not think

that there are enough potential borrowers in any locality to make it attractive for any licensee to establish an office in a rural area. It does not seem to me that there is any need for the facilities of this industry to be extended to the farming area from what has been said.

Mr. CAMERON (*Nanaimo*): Sharks always swim in seas where there are lots of fish.

Mr. MICHENER: I agree with you, but I thought that Mr. Argue made a comparison which I do not think is comparable.

By Mr. Follwell:

Q. What I am concerned about is that the farmer be not resisted when he goes to make these loans. Knowing something about a farming community, I agree that it is a very precarious business, and when a farmer goes in to negotiate a small loan then the operator of the business has to take into consideration what the farm is going to be like in two or three or five months from now. The farmer, in spite of the legislation which he has, may need some cash quickly and may prefer to do it on that basis. All I wanted to be assured of is that the farmer has not been resisted when he goes to make loans and that the companies treat him on the same basis as they would the city worker.—A. I would think that a farmer needing money would usually go to a bank where he is generally known. But I do not know the full answer to that question.

The CHAIRMAN: Generally speaking, a farmer has more assets than a factory worker.

Mr. QUELCH: And also more liabilities.

Mr. THATCHER: I think I have heard my good friend Mr. Argue say that neither the Canadian Farm Loan Act nor the Farm Improvement Loans Act is adequate and that farmers cannot get sufficient loans under them.

Mr. ARGUE: Every act can be improved.

Mr. THATCHER: Where can a farmer today get a rate of 5 per cent on an unsecured loan?

Mr. ARGUE: The banks do it often.

Mr. MONTEITH: Certain people can borrow on their name, where farmers and others cannot.

The CHAIRMAN: I think that we are getting far afield. Gentlemen, let us not have an argument here.

Mr. GOUR (*Russell*): Mr. Chairman, I think that I may be able to clear up the question of Mr. Thatcher if he thinks that farmers do not make these loans. I myself sell over \$200,000 worth of credit a year and 90 per cent of it is to farmers. In most instances I do not charge any interest; but when it is on a long-term basis, if I charge interest, it is at 5 and 6 per cent a year. Nobody in this land can afford to pay interest at the rate of 3, 4, 5 or 5½ per cent a month. The farmers are still borrowing too much from those companies. The less they go to those companies, the better it is for them. I will give you a case. A year ago a farmer changed his Monarch car, last October—it was a 1952 car—for another car of about the same model except that it was a new 1955 car. He paid a difference of \$1500. He had to pay on top of that \$325 on a 30-month payment basis. I dealt with that gentleman, when he took the car back, at \$2400. I am ready to sell that car for the same money, \$2400. He paid, up to the time that I took it, \$475 to the finance company, and in transferring it to me he lost \$400. If he had his Monarch today I would give him the same money, \$1300, for which he sold it last fall. By doing so he lost \$875 to have a new car for eight months. I mean by that that the less our people buy at a finance rate of 25 per cent per year, the better it would be for them.

He should have kept his old Monarch. I am at present driving a 1951 Chrysler. That farmer should have stayed with the Monarch. A farmer does not need to travel more than 4,000 or 5,000 miles a year. You see the mistakes which they make when money is so easy. He lost that money just to have a new car for six or seven months, and a car which was not much better than the other car he had. I hope that these people will not go in too much for loans at 24 or 30 per cent. I think that the trend today is to go a little too far. For God's sake, do not go so often and pay 24 or 30 per cent. No farmer, merchant or businessman can spend very much at those figures. It is all right to have a little of it, but do not push it too much.

The CHAIRMAN: Thank you for your advice, Mr. Gour.

The WITNESS: The fact that some licensees, including quite small ones, are operating at rates less than 2 per cent per month suggests that others could do likewise but so far competition has been ineffective in bringing about any general reduction below 2 per cent per month. Seven licensees, however, have arranged life insurance coverage of loans at no extra cost to the borrowers, namely, Astre Finance, Capital Finance, Century Credit, Niagara Finance, Peoples Finance, Strand Finance and Trans-Canada Credit.

By Mr. Fleming:

Q. What do you mean by "at no extra cost to the borrowers"?—A. At no specific extra cost.

Q. But they pay the premium on the insurance.—A. The lender pays. The lender pays the insurance premium in full just as the lender pays his rent and other operating expenses.

Q. There is no specific addition, among the charges to the borrower, in respect of the insurance?—A. Right.

Q. Whatever charge is made is merged in the total?—A. Yes.

Q. And, I presume, in that case, that the lending institution has some sort of group policy that applies to all borrowers?—A. That is right.

Q. What is the amount of the insurance? Is it just the actual amount of the loan?—A. Yes.

The CHAIRMAN: It protects the borrower and his family against his death.

Mr. CAMERON (*Nanaimo*): When Mr. MacGregor first started to present his statement I thought the idea was that he should be allowed to present it. If I remember rightly, it was Mr. Fleming who interjected the first question, and you said you would permit that deviation.

The CHAIRMAN: I said, in view of the great length of the statement, that I thought the questions should be introduced as we went along, because otherwise the members would not remember the questions which they wished to ask.

Mr. CAMERON (*Nanaimo*): We all have paper and pencils before us.

Mr. FLEMING: That was the ruling made before the witness started to read page 1 of his statement.

Mr. QUELCH: It does seem to be a most peculiar procedure. I have never seen a brief read in this fashion before where we seem to have a road block at every paragraph.

Mr. FLEMING: I do not know what Mr. Quelch means, but if he means questions—

Mr. QUELCH: I just mean that what is happening is that we get one paragraph off and then stop, have a lot of questions, and then proceed to another paragraph and then stop.

Mr. FLEMING: As a matter of fact we had a stop of two and one-half meetings on one point, and the questions asked were questions which came from the middle table where the C.C.F. and Social Credit members sit. I am not saying that the questions were not proper.

Mr. QUELCH: It is an unusual procedure. In every other committee of which I have been a member, a brief is presented and then at the end of the presentation we ask questions. While we go through the brief we make notations. This is a most peculiar procedure, but I admit that I was not here at the start.

The CHAIRMAN: It was stated at the start that in view of the complexity of the subject that we felt that it would be better this way.

Mr. PHILPOTT: Mr. Chairman, I want to put in my comment here that, regardless of what the ruling was at the beginning, I think that the witness should now be allowed to read his brief and get through it. I do not intend to attend a dozen more meetings if we do not make more progress than we have been making.

Mr. THATCHER: I have some questions I wish to ask and, therefore, I would ask the chairman if the ruling is to be changed.

The CHAIRMAN: I am not changing the ruling. I think it is too complex a subject to deal with otherwise.

By Mr. Thatcher:

Q. In connection with this insurance, are there any Canadian companies which do charge for their insurance? You say that seven of them give it free, but are there any who make specific charges?—A. Any licensees?

Q. Yes.—A. In Canada there are two that had insurance arrangements in force when the Small Loans Act was passed in 1939. Those arrangements have been permitted to continue. They are such that the borrower pays the premium. The insurance in those cases is not compulsory—not technically so anyway. When a borrower seeks a loan, he is asked if he wants the insurance; but I suppose most borrowers take it because it probably seems attractive. Those are the only two exceptions. They have been a cause for some concern, because there is some question in our minds whether the wording of the act, as it stands at present, permits any additional charge whatsoever. However, as I say, those arrangements were in force back in 1939 and have continued. I would say in addition, however, that the premiums have been substantially reduced as compared to the premiums that were payable back in 1939. In one case I think there has been a reduction of about 50 per cent, and in another case a reduction of about 30 or 35 per cent.

Q. Have you, or the department, any objection to these seven companies, which you mentioned, giving insurance at no extra cost?—A. No objection whatever. Personally, I think it is the way it should be provided.

Q. If I understand Bill 51 correctly, in the future it is going to be illegal to charge for these insurance rates. I wonder if you would enlarge on the reasons for this proposal?—A. There is a provision in the bill which would prohibit a lender from making a specific additional charge over and above the maximum rate prescribed by the act. It would require all lenders, if they provide life insurance coverage, to do it as they have been doing it up to date, namely, by bearing the cost of it themselves within the all inclusive maximum rate prescribed in the act.

Q. I am trying to get clear in my mind the purpose of the amendment. Is one of the reasons that there has been a type of a racketeering in the United States on this matter of insurance?—A. That is perhaps the best way to put it. I would be glad to enlarge on that subject but it might take a couple of hours to do it.

Q. Can we take a couple of minutes and put it in a nutshell?—A. One of the greatest problems in small loans legislation in the earlier days was to specify the charges that a lender might make. The only satisfactory system that the Russell Sage Foundation was able to suggest was to prescribe a maxi-

imum permissible rate per month which included everything. There were to be no extra charges whatsoever for any reason. Now, in more recent years, the provision of life insurance in connection with a loan has given rise to quite a serious problem in the U.S.A. Some lenders have arranged life insurance more particularly on an individual basis rather than a group basis at an extra charge to the lender; the premiums have been excessive and also the commissions payable to the lender.

By Mr. Fairey:

Q. Do you not mean an extra charge to the borrower? You said to the lender.—A. Thank you. I meant to the borrower.

It has been a subject of considerable study in the U.S.A. in recent times because it has been a very serious problem. I believe there have been sufficient signs that the problems might extend to Canada as to make it desirable to make clear in the Small Loans Act that, whatever maximum permissible rate is described, it should include everything.

By Mr. Thatcher:

Q. That is much clearer, and I can agree with you. There is one more point on this.—A. I might quote the views of one or two persons in the U.S.A. on this subject, Mr. Thatcher. This is from a publication entitled Small Loan Laws put out by the Bureau of Business Research of the Western Reserve University and the author is Professor Wallace P. Mors who has devoted a great deal of time to the whole subject of small loans and to the subject of life insurance coverage in connection with such loans. Under the heading "Loopholes" he says:

Unless a law is tightly written, some lenders will find loopholes to extract unnecessary charges from borrowers. The Russell Sage Foundation was keenly aware of this. As loopholes appeared it plugged them through revisions of the Uniform Small Loan Law.

Now that the foundation has withdrawn from the field, states must follow a similar procedure on their own. Further, they must recognize that it is a never ending job. Conditions constantly change and bring new loopholes. Currently the big problem is insurance. States have been put under increasing pressure in the past few years to permit tie-in sales of credit insurance by small loan licencees. This proposal violates a basic principle of the Uniform Small Loan Law and Model Consumer Finance Act, namely, that licensees shall make one over-all charge and only one.

In another quotation under the heading "What About Credit Insurance" the author states:

Small loan experience shows that extra charges of any kind invariably lead to abuses. The Uniform Small Loan Law meets this problem by prohibiting tie-in sales or other devices which permit lenders extra profit. A single, over-all charge is one of the law's cornerstones.

A growing number of consumer finance companies are providing credit insurance to their borrowers under the one-charge principle. They furnish borrowers with group insurance and make no extra charge for it.

The author quotes from a report of a Congressional committee in the United States which looked into this problem there; this quotation reads:

This situation places temptations before the unethical lender which too often are irresistible. Coupled with this is the inferior bargaining power of the borrowers. Especially is this true in connection with

small loan transaction... Because of the borrower's inexperience in business, lack of other credit sources, his imperative need for money, the unethical lender finds it an easy matter to coerce and intimidate him into buying credit insurance. The borrower is in no position to do anything but accept the lender's terms. One of these terms often requires the borrower to purchase the insurance exclusively from the lender... These practices are literally so widespread as to inflict these abuses upon millions of borrowers and their families. Finally, another quotation, this time from Professor William J. Parish of the University of New Mexico:

Finally, Professor William J. Parish of the University of New Mexico reached these conclusions after studying New Mexico's experience with tie-in credit insurance sales during the years between 1947 and 1953:

...credit insurance... costing a premium to the borrower which covers overhead and profits to the lender-agent, has no socially justifiable place in the house of the small loan lender.

In his considered judgement, the single, all-inclusive charge 'is the principle which more than any other factor has enabled the small loan industry to gain acceptance in the field of legitimate finance. To permit this principle to be breached would be a tragic and evil development'.

Mr. BENIDICKSON: I wonder if I could speak on a point of order, Mr. Chairman. I must confess for a couple of meetings I have been under a misapprehension. I did miss the meeting on Tuesday, I think, July 3, and at the next meeting I did ask one of my colleagues whether Mr. MacGregor had completed the reading of his brief, and I was informed that he had. I did not have access to the typewritten notes, and did not realize until now that this was not a fact and that I had been under a misapprehension. Out of courtesy, when Mr. Fleming raised his first question while Mr. MacGregor was reading the brief, I let it pass—

Mr. FLEMING: No. You did not—excuse me.

Mr. BENIDICKSON: But when he raised the second question I asked the chairman whether or not we were going to follow the practice which I take to be our usual one of not interjecting questions while a brief is being presented. Now, when I find we have not heard the latter part of this brief I wonder if the committee would not pause and consider the advisability of conforming to the more normal practice of allowing a witness to read his brief? Members of the committee could make notes of the questions which they subsequently might wish to raise, and we could go on from there.

Mr. FLEMING: I would like to make a comment about this in view of the fact that Mr. Benidickson has seen fit to bring my name into this matter. Mr. Benidickson was late for the first meeting of this committee and he did not hear the ruling—in my opinion the very sensible ruling—which you made at the outset, Mr. Chairman. The brief being presented is a very long brief; a great many tables are attached, in addition, and any one of them would merit a great deal of study. In your statement at the outset, Mr. Chairman, you said that while normally a witness reads his brief to its conclusion and questions are suspended until afterwards, in this case you felt we should ask questions as we went along. I think that was a sensible ruling and anything which has been done since has been done pursuant to that ruling.

Mr. BENIDICKSON: I was just asking whether the feelings of the committee—

Mr. FLEMING: If I might continue—Mr. Benidickson raised the same point during the course of the first meeting. I asked a question or two, and you reminded him of what you had said at the outset. He was not here at that time

and did not hear it. We have proceeded on those lines ever since. It is very true we have not gone through the whole brief but that is not the responsibility of any one member or any one group. The longest delay was on one particular page—page 26—on which we spent two and a half meetings, and the reason we did spend so much time there apparently commended itself to the committee because the point was regarded as of such importance that we interjected another witness for one and a half meetings in the course of considering the point there raised. So let us not have this put as though there were some improper departure from normal practice. If there has been any delay in reaching the end of the brief no particular member of this committee—not myself or anybody else—had anything to do with it.

Mr. BENIDICKSON: I did not say that, but I do insist that this is a departure from our usual practice.

Mr. FLEMING: It is a departure that was completely warranted in the opinion of the chair, backed up by the view of the committee at the opening of the hearings, and I think it is quite apparent that while we may hope to get along faster than we have in the last several pages, nevertheless the chairman was perfectly right when he said that this brief was too long and the subject much too complicated to have been read continuously. We would have been in a hodge-podge of confusion had we not followed in the orderly way in which Mr. MacGregor is proceeding in his approach, and Mr. MacGregor's explanations have enlarged very greatly the information contained in the brief. We all wish to get ahead and we know that time is limited. That is the reason why we are planning extra meetings, starting this afternoon; but nevertheless we are bound to have some regard for order and make an attempt, which I am sure all of us are making, to understand this complex subject. I do not see how we could go on on any other basis than that on which we have been proceeding.

Mr. BENIDICKSON: My experience has been that where there is a long brief it is customary either to have the brief read and then to ask questions subsequently or for members to be asked to take the brief away as their "homework": and read it and then come back and ask questions.

The CHAIRMAN: The reason I made that ruling, Mr. Benidickson, was because this is a particularly complex subject. It is not a simple subject. It is a long brief and each paragraph is loaded with information and facts. I felt that the only fair thing to the committee was to permit questions to be asked as we went along so that we might understand thoroughly what was there.

Mr. BENIDICKSON: I am in no way criticizing your judgment, Mr. Chairman, but I raised the matter as a point of order because I do not think it is working out to the advantage of the committee, and I was just wondering if at this point you would like to find out the feeling of the committee with regard to it.

The CHAIRMAN: If you wish to move a motion, that is your privilege. I am not changing my ruling, because I think it is sound.

Mr. CAMERON (*Nanaimo*): I make a motion that Mr. MacGregor be allowed from now on to read his brief uninterrupted, and that members reserve their questions until after it is concluded.

Mr. REGIER: I second the motion.

Motion put.

The CHAIRMAN: I declare the motion defeated.

Mr. QUELCH: I would suggest that when we are finally through with the brief it be printed in its entirety as an appendix, otherwise people who are interested in this brief are going to have an almost impossible task in disentangling it—it is so split up with additions.

The CHAIRMAN: I think that is a perfectly sensible suggestion and I am sure the committee will agree with it. Agreed.

By Mr. Thatcher:

Q. I would like to know if the department has had any indication from these seven companies which are today giving free insurance that if the new rates were put into effect they might be obliged to discontinue that service?—A. None of the seven companies mentioned has expressed that view to the department.

Q. I suppose you would have no idea whether or not there was that danger?—A. We hear by the "grapevine" that the proposed rates are considered too low but whether—

The CHAIRMAN: They will be here to make their representations, Mr. Thatcher.

The WITNESS: —but whether it would have that effect on their present practice I would not like to say. I would not like to speak for them.

By Mr. Michener:

Q. Mr. MacGregor deals in one paragraph on page 27 of his statement with a very important consideration, namely whether or not competition does have any effect on rates. There are a good many active and efficient companies lending money and I would like to pursue this question, because the evidence which he produces does not seem to be very conclusive. Some parts of it point to the fact that competition, left alone, does result in a reduction of rate in order to secure more business; and yet today the proportion of the business that is done below the legal maximum is not very great—at least, it is not half. I think Mr. MacGregor estimated it as 37 per cent. I have some information on that subject which I want to verify. Was that percentage applicable to the licensed or to the unlicensed field, or both?—A. The percentage figure which I think you have in mind relates to the unregulated field covering loans above \$500.

Q. You mentioned seven or eight companies there who are charging less than 2 per cent, including Personal Finance, Niagara, Canadian Commercial, Union Finance, Maritime and Services. It was suggested to me that those companies held a little over 40 per cent of the total outstanding of the loans of \$500 or more in 1954. I do not know whether you disagree with that?—A. That looks to be about right. The figure of 37 per cent which I gave was based on the 1955 figures. But I just realize, now, that it includes only the five companies named at the top of that page. It does not include the three mentioned in the second paragraph—Equitable, Maritime and Service, but their volume is so small that I do not think it would make any appreciable difference.

Q. When you add those who are giving free life insurance benefit what percentage more would that add to the 40 per cent?—A. The only important addition would be Trans Canada Credit, because Niagara is the biggest lender in the large loan field among the seven that are providing so-called free insurance. This company is included already in the 37 per cent. Trans Canada Credit has a substantial volume of business above \$500, and it might increase the figure, perhaps, to 40 per cent or 41 per cent.

Q. Then it might be proper to say that 40 per cent or more of the companies lending in that field above \$500 are now charging somewhat less than the legal maximum?—A. The total volume includes H.F.C. as well—the one large unlicensed company.

Q. And, looking at the previous experience, you had something to say about this on page 14 where you described the move toward lower rates which began in 1943. You say at the fifth line from the bottom of the page:

Significant reductions began to be made by the larger lenders late in 1943.

I understand there were some substantial reductions and an extensive move toward competitive lowering of rates which carried on until the matter came before this committee in 1946 in the form of a bill to reduce the maximum rate to—what was it at that time?—A. It was $1\frac{1}{2}$ per cent.

Q. Was not the effect of that, oddly enough, to dry up the competitive reduction of rates?—A. I think I could answer your question briefly by saying it is significant that the substantial reductions made by the largest lenders in the 1940's occurred when no new licences were being granted—in other words when competition was not so keen as normally and certainly not so keen as it is now. The point I have in mind is that those substantial reductions were made at a time when the policy was against issuing any new licences at all and the number of companies was actually declining. But whether or not the bill of 1946 proposing a reduction to $1\frac{1}{2}$ per cent had any direct effect upon the practices of the lenders that were then charging $1\frac{1}{2}$ per cent I would hesitate to say. I think the important development in 1946, and through to 1950, was the rising level of expenses. I really think that is what prompted the lenders to get back to $1\frac{3}{4}$ per cent and finally to 2 per cent again.

Q. In other words there was not the same margin of profit with which to make a reduction?—A. Not with rising expenses.

Q. I would have thought that in a business which appears to be as competitive as this there would be a very strong tendency—apart from an illegal combination or something of that kind—to lower interest rates with the idea of increasing business, and I wonder whether there is any explanation why this has not come about.—A. I think competition has some effect on rates but I do not think it has a very profound effect.

Q. Apparently it has not. My point was that there should be a strong tendency to reduce rates if this business is so competitive, and your only explanation of why this does not come about is, as I understand it, that rising costs have not given the companies any latitude within which to make reductions.—A. I think that as competition increases the lenders are inclined to spend more to get a larger share of the business. For example, if you have a new shopping centre and a lender establishes an office there I do not think it will be long before you would see another lender establish an office nearby. Perhaps there is no dire need of the extra facilities in that locality, but if the competitor does not open a branch he may lose some of his co-called customers whom he now has; in the face of competition a lender will be inclined, I think, to advertise more and to spend more generally.

Q. I would think that if I wanted to borrow money on percentage, and one company charged 2 per cent and another $1\frac{1}{2}$ per cent advertising would not affect my choice. I would go to the one which offered the lower rate of interest.

The CHAIRMAN: That is if you knew what the rates were.

The WITNESS: I think borrowers do not do that—otherwise borrowers now would be more discriminating in selecting their lenders and would go where the rates are cheapest.

By Mr. Michener:

Q. Why, then, do any of these companies lend money at less than the maximum rate—and there are over 40 per cent of the companies doing so?

The CHAIRMAN: Gentlemen, it is now one o'clock. Could we leave that over until 3.30 p.m. when we meet this afternoon?

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: We will proceed.

Mr. K. R. MacGregor, Superintendent of Insurance, recalled:

Mr. MICHENER: I had been inviting Mr. MacGregor to comment further on the question of whether or not competition was effective in bringing about a reduction in the interest rates charged, and I pointed out that there seemed to be arguments both ways in his brief. Perhaps he would be ready to comment further on that now.

The WITNESS: As I have said before, Mr. Michener, I do not take the position that competition has no effect. I believe it has some effect; but I do not think that competition, of itself, would ever be sufficient to regulate the small loans industry—not yet anyway. It has not proved so in the past; otherwise small loans laws in the U.S.A. and in Canada would never have been necessary. I cannot say what motive prompted these particular lenders to charge less than the legal maximum. I can say, however, that in one or two cases, so far as I know, they never charged any more than the rates mentioned here. Maritime Finance was charging 1·8 per cent when they were first licensed in 1940. Canadian Acceptance never charged the full maximum rate, and a few years ago they were charging even less than they are charging today. However, I would suggest that these lenders that are charging less than the legal maximum, probably hope to secure some competitive advantage or, secondly, they feel they can make a reasonable profit at these rates. But I think that the answer must finally come from the lenders themselves.

By the Chairman:

Q. In their advertising, do they emphasize that they are charging less than the maximum permitted? Do they try to obtain an advantage by doing that?—A. I do not think so. I do not recall any recent advertising stressing lower rates.

By Mr. Michener:

Q. Well, the experience seems to have been that there was a very definite trend towards reduction, beginning about 1943, which came to an end— —A. 1950.

Q. Which came to an end pending revision of this legislation in 1946.—A. It was later than that. The reductions continued until 1948. Then the lower rates were stepped up and were finally back to 2 per cent by 1950.

Q. So today we have a substantial number charging rates less than the maximum, but a substantial number who charge the maximum—slightly over half who charge the maximum rate?—A. By number, the great majority are charging the maximum rate of 2 per cent. When you say “maximum rate”, their rate is not a maximum rate in the true sense; they charge 2 per cent which is really the maximum rate for small loans.

Q. That is understood. We are dealing with the unlicensed business, but we are thinking about the small loans rate.—A. Yes. Perhaps I might interject that if competition is thought to be particularly effective, the question immediately arises as to why the other lenders have not been forced through competition to bring their rates down.

By Mr. Quelch:

Q. Has the number increased in the last five years?—A. The number of licensees has increased recently; but in the last two years there has also been a tremendous increase in the number of inquiries about obtaining a licence and the number of applications for licences. We have turned aside a good many applications.

By Mr. Michener:

Q. I would like to ask whether or not the principle companies in the business have been consulted about this proposed reduction in the maximum rate, or whether there has been a discussion in the industry about the possibility of lower maximum rates for small loans?—A. Yes, there has. The Canadian Consumer Loan Association itself recommended lower rates in a brief filed with the government last summer. I shall refer to that later on and quote their proposals.

Q. Yes. I notice that. But I am wondering whether it would be fair to conclude that with a maximum rate change in the offing, if the reduction which competition might bring about, and has brought about to some extent, may be deferred until the legal position has been clarified?—A. That is possible, but I do not presume to speak for the lenders. I do not know what is in their minds in that respect.

Q. If changes in policy were being considered, I should think that the companies would defer changes in rate while some legislative changes were being considered.—A. In other words, they might postpone reductions and make hay while the sun shines?

Q. That might be one way of looking at it. Do you think, Mr. MacGregor, that the maximum rate tends to become the rate?—A. Generally speaking, yes.

Q. Do you think that that is the way the business works?—A. It seems to work out that way.

Q. Notwithstanding the substantial exceptions?—A. There are always exceptions. I understand that in New York state, notwithstanding their relatively tight rate, so to speak, there are at present six licensees which I understand are charging less than the maximum rate prescribed in that state; and already it is one of the lowest.

Q. Then, there was another statement which you made in respect to the increasing cost as having been an explanation for the lack of rate reduction. I suppose that that, to some extent, is an argument against reducing the maximum rates at this time, if that is so and the costs are increasing?—A. Undoubtedly the fact that interest rates have been rising recently—and naturally interest rates affect money borrowed—and undoubtedly because expenses have been rising, the case for reducing the maximum rate is modified to some extent; but I think it is a relatively small extent.

Q. Then I think that you hold the opinion that the major companies are the more effective competitors in the field; they are more efficient and have been more efficient and are able to meet competition perhaps better than the smaller more recent licensees?—A. Generally speaking, yes. The major operators have a higher rate of earnings and they can afford to absorb a rate reduction easier than the smaller lenders.

Q. That leads to a question with which you may deal later, in which case I will defer it. It is: what would be the effect on the newer and less efficient companies?—A. It would be more serious; undoubtedly the proposed reduction would be more serious for them.

Q. Would you expect it to make it impossible for any substantial number of them to continue in business?—A. Well, as I mentioned, or as I propose to mention sometime, it is difficult to know what a lender expects to get out

of the business by way of salary, travelling expenses and all that sort of thing. One cannot really answer the question, I think, on the basis of a return on capital alone, for example, because one has to take into account all the other benefits that the small operator may derive from his business, and what he himself is satisfied with by way of a return on his capital. Some may say that 10 per cent is just not enough and that they would rather go into some other business. It is pretty hard for someone else to speak for them.

Q. I understand that you suggest that if certain lenders find it unprofitable to operate under the proposed scale that they would go and use their capital elsewhere.—A. A great many of the licensees have associated companies within their own offices which are presently operating in the conditional sale agreement field or in the larger loan field.

Q. What proportion of the present industry would you expect to be able to survive and make a reasonable profit in the proposed rates?—A. I would rather answer that question by saying that I think there would be an ample number of lenders who would remain and who would continue to provide the vast majority of the facilities presently being afforded. The number of lenders who might withdraw might be quite a few; but the volume, or the proportion, of business done by them in the whole field, I think, would be relatively small.

Q. It is rather the fringe companies that you would expect to have to withdraw under the new rates?—A. I would expect so.

Q. And they are mostly local concerns?—A. That is so.

Q. Would you consider that a desirable result from the point of view of the supply of credit in this field?—A. With all respect, I think that is for the committee to decide.

Q. The rate which you recommend, Mr. MacGregor, I take it to be the lowest rate which you think would return a reasonable profit to the efficient operator?—A. And would result in adequate facilities continuing to be available.

Q. Would you answer my question, that the rate which you propose you consider to be the lowest rate which would enable efficient operators to continue in business—the lowest practicable rate at which efficient operators would be able to operate?—A. I think that is a reasonable way to put it.

Q. Let me ask you this: do you think it fair to have some margin between the rate at which the efficient operator can operate and the maximum?—A. Not if there are enough efficient operators to provide adequate facilities.

Q. Then you are getting into a question of judgment as to who are efficient and who are not and you would have to tell the committee who are efficient operators and who would be left after the new rate was provided, in order to justify that position.—A. I was going to say that it would be inconceivable to me that a sufficiently large number of operators would withdraw to leave the field inadequately serviced. I feel that the rates proposed in the present bill would enable a sufficient number of the present licensees to continue to operate and make a reasonable profit and provide all the facilities that are necessary.

Q. I think the committee sees your point of view clearly enough. The question which bothers me is, whether it is fair to set a margin which does not make room at least for some inefficiency. You cannot expect everybody to operate efficiently at all times and from the beginning. What I am concerned about is that the rate does leave room for the average person and not just for the most efficient one.—A. The trouble, Mr. Michener, is that if the maximum rate is set so that some inefficient lenders may make a profit, then the other lenders will make an unreasonable profit. Moreover, as we in the department have always understood the legislation, it is primarily borrower legislation, so to speak, and the objective that was emphasized all through the committee's

report in 1938 was to obtain the best procurable rate for the borrower consistent with adequate facilities being provided. It was never regarded, so far as I know, as lender legislation designed to ensure that inefficient operators should make a reasonable profit.

Q. I am not suggesting that. I think that the facts which you have given us now show that the inefficient operators, or some operators, are not making a profit even with the rates as they exist, and in consequence the present rates are not a ceiling over all inefficiency. What I am trying to point out is the margin which there is between the reasonable profit which you say this new rate will permit to the best operator and a maximum is something above that which permits those who are average and, in the main, are local concerns to operate. I think that is an important consideration for this committee.—A. I agree that is an important consideration.

Q. So that they are not driven out of business just because they are not up to the highest standard. We all believe in regulation, but we do not believe in the idea that only an efficient monopoly can survive. That is not my view of it.—A. That is a terribly difficult question, whether the legislative rate is to be set so that the average or the inefficient operator may live and make a profit, or whether the rate should be set as the best procurable rate for the borrower.

Q. I would like you, if you could, to give us some indication as to what percentage of the lenders are going to be above the new rate if it is adopted and consequently forced out of business.—I would find that difficult, because I do not know what would satisfy some lenders; I do not know whether they expect 6 per cent, 10 per cent or 20 per cent.

Q. You have all their figures and you have seen their reports and have analyzed their statements carefully. You would see from those statements just what would put them in the red where they are now in the black.—A. Of course, but one must know a great many other things also: the salaries, the automobiles, the travelling expenses, and the other things that individuals are drawing from their own concerns. We in the department do not have complete information of this kind. Our examiner may give us some information on them if they seem to be out of line, but one wants to know everything that an operator is getting out of his business apart from the apparent return on his capital. Even then we could not say what minimum might satisfy a lender.

Q. I understood you to agree with me the other day that the details as to rent and other things in the ordinary course of business were not something which you should supervise.

Mr. ARGUE: But you are asking for that now. Surely it is important that this committee should know why these so-called marginal companies are not in fact showing a larger profit if it is because they have officers who are obtaining outlandishly high salaries.

By Mr. Michener:

Q. I understood Mr. MacGregor to say that he did not know what they were charging and that it was none of his business. It may be relevant to this committee to know, but I should think that you would agree with me, in your administration, that you cannot very well run their business. You can see that they obey the law, are reasonably efficient, and that their dealings are fair towards the borrower.—A. We do not supervise salaries, nor do we attempt to. The annual statements show the total salaries paid, total rent paid, total advertising expenses, and so on. But only by going into the company's office could one obtain the details of these several items of expenditure. We do have, as I said before—perhaps I used the word “details”, and, if I did, that may not have been the most appropriate word—we have, in their

statements, the total salaries, rents, advertising and so on, but not the individual components of each item. One would have to know those components in the case of the operators themselves to know what they are getting out of the business.

Q. I suggest that that is not the duty of a licensing authority. Do you know of any business in Canada where the government undertakes to suggest what salary should be paid?—A. I am not suggesting that it is our duty. But, if one is asked, as I have been asked, whether I think a lender might withdraw, I think one has to know what that lender is getting out of his business in every form, before one would be in a position even to guess; and I am not sure, even if you have all information concerning salaries, travelling expenses, and so on, that anyone can speak for the lender himself because no one knows what may seem right to another person.

Q. Some part of the profit may be classified as salaries?—A. Yes.

Q. That was not quite the approach I had. I was thinking of the paternalistic supervision of the business—A. We have absolutely nothing to say about the salaries they pay and I do not recall any instance where we have uttered a word about them.

Q. You do not feel that you can separate the sheep from the goats even in an approximate way? That would, I think, be useful information to the committee. Assuming this new rate becomes effective, who will be the goats and who will be the sheep?

By Mr. Quelch:

Q. Will they not separate themselves when the new act comes into force? The inefficient ones will drop out—the ones paying excessive salaries will drop out and they will separate themselves.

By Mr. Faurey:

Q. Is it the assumption that only the smaller companies will be paying excessive salaries? Did you not say that the American companies were obtaining funds at a lower rate than the Canadian companies?—A. I said that is sometimes said. I did not say it myself. At present it is a fact that the larger American-owned licensees are I believe obtaining all, or nearly all of their lending funds in the United States. But, of course, some of our provincial governments and others are borrowing there for the same reason—there is some advantage now in doing so.

Q. I am not saying it is wrong. I was only asking whether it was a fact. In that case the larger American companies have definite advantage over the Canadian companies in that respect and therefore if the percentage is set so low—I am not suggesting it is too low—but if it is set so low it would make it very difficult for Canadian companies to operate as compared with the American companies which would then have an advantage.—A. They might. They probably would have.

By Mr. Thatcher:

Q. There is just one question I would like to ask along the line Mr. Michener was pursuing. I think every member of the committee is anxious to see that the consumer gets the lowest possible interest rate, but one point puzzles me. The Minister of Finance and other government ministers have repeatedly said in the course of this session that there is an extreme danger of inflation in the country at this time. Because of this danger the Bank of Canada has raised its interest rate, the commercial banks have raised interest rates, the rates of interest under the Housing Act have been put up, and so on, all with a view to discouraging inflation. I am wondering whether this proposal is not

at cross purposes with that trend. In other words, if we adopt Bill 51 would it not have an opposite effect as far as inflation is concerned?—A. I do not think so, Mr. Thatcher.

Q. Would you explain that, Mr. MacGregor? That is a point which puzzles me.—A. The extent to which credit is expanded or extended in this particular field is governed only to a relatively small extent, I think, by the interest rate level; it is governed to a much greater extent—I am speaking of the expansion of credit in this form—by the extent of the lending facilities that are available, that is to say by the number of lending offices. The higher the rates that lenders may charge, broadly speaking, the more facilities you will find offered and I think that is one reason why at the present time there has been such a marked interest manifested on the part of external lending organizations with a view to entering Canada. The number who have inquired during the last year or two is incomparably greater than ever before.

Q. You do not think that if the rate were lower as is being suggested, that there would be a greater demand for consumer credit and an increased tendency toward inflation?—A. I do not think so. That of course touches again on the question of rates, competition, and so on—how discriminating borrowers are in the matter of rates. I am sure that it is more a matter of habit than anything else. Borrowers are not very discriminating.

MR. PHILPOTT: Mr. MacGregor, there must be a good deal of competition between the small loans companies, as a group, and merchants who are also giving consumer credit. Would this be a suitable point at which to raise the whole question of the relative rates charged by the merchants and the small loans companies? I want to get some information on that if it fits in well here—it might be a good place at which to ask these questions.

The CHAIRMAN: I have no objection to this matter being raised now.

By Mr. Philpott:

Q. Well, by and large, do you think the rates we have here under this Small Loans Act are competitive with the rates being charged by the big merchandising organizations that sell washing machines, vacuum cleaners and everything else by way of consumer credit?—A. Well, Mr. Philpott, buying “on time” under conditional sale agreements and otherwise is certainly a very broad and extensive field and I do not presume to know what rates are being charged across the country by different dealers, acceptance companies and so on, with whom we have no connection at all. I can say however that as far as our licensees are engaged in that particular field the average annual rate of return is indicated in table 6 under the heading “Conditional Sale Agreements”. You will see there that for licensees as a whole the average annual rate is roughly 15 per cent per annum as against 22 per cent or 23 per cent for loans. It is my understanding that some department stores charge one per cent per month on articles bought “on time”, including charge accounts that run past one month. There are departmental stores here in Ottawa—at least two of the larger stores—which operate on the basis of one per cent per month. On the other hand—

Q. Excuse me; when you are talking about one per cent per month is that interest rate calculated on the same terms as apply in respect of the Small Loans Act lender? Is that on the unpaid balance?—A. Yes.

Q. And that is on precisely the same basis as applies in the case of the Small Loans Act?—A. That is the all-inclusive rate.

Q. I do not challenge it. I want to get at the facts.—A. So far as automobiles are concerned I do not know what rates are being charged in the used car field but I believe that a good many of the operators in that field are

charging pretty high rates from all one hears. I understand that the average range in respect of new cars is between 14 and 17 per cent—somewhere in that area.

The CHAIRMAN: Does that include other charges, such as insurance placed by the acceptance corporation?

The WITNESS: No, everything, I think but insurance. Again I am speaking from general information; I have not bought a car on time so I do not know.

By Mr. Enfield:

Q. I could perhaps add something to that, Mr. Chairman, if I may. I had occasion to make a study for my firm of these conditional sale agreements for the smaller amounts under \$500, and we found that the rate of interest in several cases we investigated worked out at about 21·6 per cent annually. It is difficult to tell what the monthly rate was because all the payment schedules and so forth were worked out at an annual interest rate. This inquiry was made in connection with the appliance field. There were no automobiles included in it, but it includes television, refrigerator and range accounts in that field where a tremendous volume of credit is extended. Competition is, however, extremely keen in that field and some of the finance companies are making rebates to dealers in order to get their business. I would think perhaps that this would bring the rate of interest down. Certainly rebates allowed to dealers sometimes reduce the annual rate to something like 18 per cent, but the customer does not feel the benefit of that rebate. He pays 21·6 per cent. —A. I believe that is so. I have heard it said that in the United States some finance companies are withdrawing from the field of conditional sale agreements for the simple reason that they feel that the dealer holds his cheque book because of this competition. On the other hand I have had cases brought to my attention here in Canada where a person who has bought, say, a new bicycle “on time” has been involved in interest charges of considerably more than 2 per cent per month. One might say in cases like this: he ought to go to a small loans company for the money and then pay cash. But apparently people are not sufficiently familiar with the situation to know which is the better course.

Mr. MONTEITH: A good advertising point.

By Mr. Enfield:

Q. There seems to be some confusion in the mind of the public as to the difference between the small loan company on one hand and the acceptance corporation which takes up conditional sale agreements on the other. Is it not true that we have no legislation covering acceptance corporations as such?

—A. There is no Dominion legislation but there is legislation in three provinces dealing with the subject of conditional sales to a relatively limited extent. The provinces are New Brunswick, Quebec and Alberta.

Q. And is it not further true that the great volume of credit work is done not in the money lending field but in the field of the acceptance corporations?

—A. That is true. The volume there is much greater.

Mr. FOLLWELL: Did I hear Mr. Enfield correctly when he seemed to say that according to the study made by his firm the dealer gets a “kick back” of about 18 per cent?

Mr. ENFIELD: No. I said they often received a small rebate which might bring the interest payable to the acceptance corporation down to about 18 per cent.

The CHAIRMAN: That is not passed on to the purchaser.

Mr. ENFIELD: No, it is not passed on to the purchaser.

Mr. FOLLWELL: It might be well for us to investigate the appliance field, too, then.

The CHAIRMAN: I do not think that would come within our terms of reference.

Mr. FOLLWELL: Well, we must accept that—you are a very efficient chairman.

The CHAIRMAN: That has been subject to challenge, apparently. Perhaps we could get on with the statement.

Some Hon. MEMBERS: Hear, hear.

The WITNESS: Table 7 shows the distribution of the income dollar so far as losses and expenses, other than income tax and interest on borrowed money, are concerned. The losses and main categories of expenses are in each case expressed as a percentage of total income excluding recoveries on amounts previously written off. Substantial variations amongst the several lenders and between small loans business and other business are evident. The expenses connected with small loans are relatively heavier than for larger loans, hence one expects to find relatively higher percentages for the former when there is little or no difference in the rates charged for small loans as compared with those for larger loans. On the other hand, this consideration is tempered where lenders transact a substantial volume of business relating to conditional sale agreements, etc., which, as shown in Table 6, generally carry a lower rate of charge. The volume of this kind of business is much larger, proportionately, in the "All Others" group of money-lenders. A few cases stand out where the percentages in the table are very much higher for small loans business than for other business. At least some of these cases are, in my opinion, attributable to the apportionment of too many expenses solely on the basis of the number of accounts without any regard to the size of loan. I believe that there has been great improvement in the accuracy with which expenses are allocated between these two main branches of business but in a few instances the licensees have continued to view the problem differently from the department.

By Mr. Follwell:

Q. With regard to one part of that particular paragraph where Mr. MacGregor says: "A few cases stand out where the percentages in the table are very much higher for small loans business than for other business. At least some of these cases are, in my opinion, attributable to the apportionment of too many expenses solely on the basis of the number of accounts without any regard to the size of loan". I am just wondering if it is not the number of accounts handled which is the cause of the expenses which these companies have to meet.—A. To a large extent that is true but I feel that there are certain expenses—for example the salaries of executives—that are hardly apportionable solely on a piece basis, so to speak, or solely on the basis of accounts alone. With regard to the salaries paid to clerks, I would say that they might justifiably be apportioned on the basis of the accounts handled. On the other hand, advertising is another item where it is questionable whether the burden of expense should not have regard for the size of the loans and the earnings from them rather than the number of accounts alone. What I had in mind particularly in making these comments was the amount of the salaries paid to executives and expenditure on advertising. One or two licensees apportion them all on the basis of the number of accounts alone with the result that you may have a ratio of 40 per cent for salaries under the heading "Small Loans" and only 8 or 10 per cent for other business. Or with regard to advertising, you might have 10 or 12 per cent under small loans and only 2 per cent under other loans.

By Mr. Cameron (Nanaimo):

Q. What do you include under the term "salaries" then? Would that include the wages paid to the clerical staff, and so on?—A. Yes.

Q. The whole works?

The CHAIRMAN: Mr. MacGregor asked me whether it would be satisfactory to the committee to have the complete financial statement of Merchants Finance Limited printed as an appendix to these proceedings; it is a long report, and otherwise he would have to have the documents photostated and many copies made. Would that be agreeable to the committee?

Agreed. (See Appendix "H")

By Mr. Follwell:

Q. I have one other question on that point. I wonder whether the cost of servicing a small account, say, of \$200 might not be just as great, or greater than, the cost of servicing a loan of, say, \$2,000.—A. I would agree that many of a company's expenses are best apportioned on the basis of the number of accounts but let us take advertising, for example. Why does a company advertise? It advertises to gain business, but it will make more on the large loans than on the small loans. Would it not therefore be reasonable to apportion advertising costs at least in part on the basis of the size of the loans rather than on the basis of the number of accounts alone? I think so. Perhaps others do not agree.

Q. I was thinking of general office expenses. Once your advertising is over, you have a customer coming in who wants to borrow, say \$200. I do not know if you have ever been in to negotiate a \$200 loan—I have not—but I presume that many questions would be asked and a good deal of time would be taken up during the interview. It might be fairly costly to negotiate a \$200 loan. But with regard to a sales condition loan I think it might be quite reasonable to negotiate a loan for as much as \$2,000. I understand that when you have made a sale you send in your contract to the finance organization and they send back the money.—A. I know of no more difficult accounting problem than the apportionment of expenses. It is a matter of opinion how any particular item of expenditure should be apportioned between the various branches of a business in cases where it arises from or relates to more than one branch or fund. But this problem is not new and it has been studied at great length by the lenders, large and small. As I mentioned earlier, the largest licensee found that if the expenses were apportioned to the extent of 50 per cent on the basis of the average balances outstanding during the year and 50 per cent on the basis of the average number of accounts outstanding one arrived at just about the same result as through a much more detailed treatment of each separate item. If one accepts the view that a 50-50 division is reasonable and appropriate I think the case is pretty strong against the apportionment of all expenses on the basis of the number of accounts alone and that is what I am really saying here.

Q. Is there any other allocation formula, beside the account system, which you want to put forward for consideration? Is there any other particular formula which you could recommend?—A. No. We have always felt that it is an individual problem which should be approached and solved by the licensee himself, because he is naturally most familiar with the manner in which the expenses are incurred. We might, however, comment on their practice and we might possibly criticize it—

Q. Only in a constructive way, of course?—A. Of course! Where the lender, perhaps at the outset, has no particular idea how expenses should be apportioned we have suggested a formula as a starting point. The same problem arises in the insurance field. I do not think any two life insurance

companies are using precisely the same formula for apportioning their expenses as between the non-participating and participating branches. The practices vary throughout the whole field.

Q. I presume that the people who operate the company are in the best position to decide how the allocation should be made?—A. Quite! All we are interested in is in obtaining the most realistic picture possible; but we do feel that advertising expenditure and at least the upper salaries ought not to be assessed solely on the basis of the number of accounts. The result of the latter practice by a few licensees is reflected in the table—they have much higher percentages under the heading “Small Loans” than for other business.

Q. I notice that on your table 6, in regard to all licensees, the conditional sale agreements show somewhat lower percentages—16·3 per cent in 1953, 15·2 per cent in 1954 and 14·3 per cent in 1955—than the small loans.—A. That is not a question involving expenses; that is the average annual rate of income.

Q. Would there be anything there as a credit for reserves?—A. There has been no deduction from the income for that purpose in table 6. It would be treated as an item on the debit side and would appear in table 7 in the first general section headed “Net Amount Written Off Plus Net Transfer to Reserve for Bad Debts.”

Advertising is one feature of the small loans business that usually attracts a good deal of attention. To the credit of the licensees it can be said that whereas the small loans companies that were in business in the thirties spent 10 per cent of their income on advertising, the proportion now is down to about 5 per cent or slightly less. There would seem, however, to be room for a further substantial reduction when one has regard for the enormously larger volume of business presently transacted and for the fact that the existence of the facilities of licensees is now far better known than twenty years ago. The very large proportion of business stemming from “current” or “repeat” customers is another aspect that should not be overlooked since they already have an intimate knowledge of the available facilities. It is difficult to escape the conclusion that the present situation is one where advertising is carried on more for a competitive advantage than to acquaint the public with the existence of money-lending facilities. The latter is the principle followed in Great Britain where the nature of advertising is strictly limited. Even if one were prepared to agree that advertising for competitive purposes is justifiable in the money-lending business, the over-all competitive situation would be relatively unchanged if all licensees were to reduce their advertising by, say, one-half. Any such change would, of course, have to be started by the largest lenders. For purposes of comparison, I might mention that trust companies subject to supervision by the department spend about $1\frac{3}{4}$ per cent of their income on advertising and mortgage loan companies about $\frac{1}{2}$ of 1 per cent. Even if the present advertising costs of licensees were cut in two, they would still be high as compared with trust and loan companies.

By Mr. Fleming:

Q. Mr. MacGregor, there are a couple of points I would like to ask about. The first is the final sentence on page 28 of your statement.

The latter is the principle followed in Great Britain where the nature of advertising is strictly limited. ■

Would you enlarge on that statement, please?—A. In Great Britain as a general principle lenders are forbidden to send circulars to anyone unless specifically requested to do so.

Q. That is, to send them through the mail?—A. That is right, and if they do there are only certain specific kinds of information that may be included

in the circular. The same applies to newspaper advertising. If it is the wish of the committee, I might quote the section of the Money-Lenders Act of Great Britain dealing with advertising. It is one and a half pages long.

Agreed.

5. Restrictions on moneylending advertisements:

(1) No person shall knowingly send or deliver or cause to be sent or delivered to any person except in response to his written request any circular or other document advertising the name, address or telephone number of a moneylender, or containing an invitation—

- (a) to borrow money from a moneylender;
- (b) to enter into any transaction involving the borrowing of money from a moneylender;
- (c) to apply to any place with a view to obtaining information or advice as to borrowing any money from a moneylender;

(2) Subject as hereinafter provided, no person shall publish or cause to be published in any newspaper or other printed paper issued periodically for public circulation, or by means of any poster or placard, an advertisement advertising any such particulars, or containing any such invitation, as aforesaid:

Provided that an advertisement in conformity with the requirements of this act relating to the use of names on moneylenders' documents may be published by or on behalf of a moneylender in any newspaper or in any such paper as aforesaid or by means of a poster or placard exhibited at any authorized address of the moneylender, if it contains no addition to the particulars necessary to comply with the said requirements, except any of the following particulars, that is to say any authorized address at which he carries on business as a moneylender and the telegraphic address and telephone number thereof, any address at which he formerly carried on business, a statement that he lends money with or without security, and of the highest and lowest sums that he is prepared to lend, and a statement of the date on which the business carried on by him was first established.

(3) No moneylender or any person on his behalf shall employ any agent or canvasser for the purpose of inviting any person to borrow money or to enter into any transaction involving the borrowing of money from a moneylender, and no person shall act as such agent or canvasser, or demand or receive directly or indirectly any sum or other valuable consideration by way of commission or otherwise for introducing or undertaking to introduce to a moneylender any person desiring to borrow money.

(4) Where any document issued or published by or on behalf of a moneylender purports to indicate the terms of interest upon which he is willing to make loans or any particular loan, the document shall either express the interest proposed to be charged in terms of a rate per cent per annum or show the rate per cent per annum represented by the interest proposed to be charged as calculated in accordance with the provisions of the First Schedule of this act.

(5) Any person acting in contravention of any of the provisions of this section shall be guilty of a misdemeanour and shall in respect of each offence be liable, on conviction on indictment, to imprisonment for a term not exceeding three months or a fine not exceeding one

hundred pounds, or to both such imprisonment and fine, and, on summary conviction to imprisonment for a term not exceeding one month or to a fine not exceeding twenty pounds, or to both such imprisonment and fine.

(6) Where it is shown that a moneylending transaction was brought about by a contravention of any of the provisions of this section; the transaction shall, notwithstanding that the moneylender was duly licensed under this act, be illegal, unless the moneylender proves that the contravention occurred without his consent or connivance.

Now, in addition to reading that section, Mr. Fleming, I might quote two paragraphs from a book, "Money Lending in Great Britain", chapter 5, entitled "Beginnings of Administrative Restraint." I think it summarizes in a very few words the position in Great Britain with respect to advertising restrictions.

Misleading advertising is entirely abolished by the act of 1927. The moneylender may advertise only by means of announcements in newspapers or placards at his authorized address. These advertisements may contain only seven statements: (1) the lender's authorized name;

(2) his authorized address, with its telegraphic address and telephone number; (3) any previous address; (4) a statement that he lends money with or without security; (5) the highest and lowest amount that he will lend; (6) the date when his business was first established; (7) the rate of interest he proposes to charge. If he publishes the rate of interest, he must express it as a definite percentage rate per annum or must show the rate to be charged as calculated in accordance with the schedule attached to the act itself.

The act abolishes all circularizing. Only in response to a written request may a moneylender send a circular. Circularizing is forbidden not only to lenders themselves but to agents or brokers who give information or advice about borrowing money. The act prohibits lenders from employing agents or canvassers and prohibits agents or canvassers from receiving remuneration for introducing borrowers to lenders. Contravention of these provisions not only subjects a person to criminal punishment but makes illegal and unenforceable a money-lending transaction so induced.

By Mr. Fleming:

Q. I see that in the concluding sentence of the paragraph you are drawing a comparison between the advertising costs of money-lenders on one hand and those of trust and loan companies on the other. I would not think, myself, Mr. MacGregor, that that was a very apt comparison, because the businesses are so very different. Do you think there is much weight in this particular comparison?—A. Well, it is a question, I suppose, of what proportion of any company's income may reasonably be spent on advertising. I referred to trust and loan companies because they are both under our supervision, and we are familiar with their figures. The mortgage loan companies, I suppose, do not have to go out looking for business these days to quite the same extent as the small loans companies. The trust companies, however, are always looking for business and their operations cover a very wide field.

Q. We do not need to argue about it; it may be a difference of opinion. But I would not think, frankly, that there was any basis of comparison there. I am quite prepared to examine the question of advertising costs on its merits, but I do not see that there is any basis of comparison between two types of business which are radically different in nature and which differ in the nature

of their contact with the public. However, I come to my final question: are you advocating, in putting forward these views in regard to advertising costs, Mr. MacGregor, the imposition of any limitation on the percentage that any of these money-lenders or small loan companies may devote to advertising?—A. No, I have no such thought at all, Mr. Fleming. So far as the small loans companies are concerned I believe the only satisfactory basis for prescribing charges is by way of one all inclusive maximum rate. As a matter of fact I doubt the constitutionality of any attempt to prescribe limitations on expenses of a particular nature.

Q. Such as advertising?—A. Yes. My thought is simply that here is one place where the lenders might save some money if the maximum rates are reduced.

Q. Well, if the bill gives effect to your view as to the all-inclusive nature of the cost, as defined in the act, it is directly related to the interest that need be charged?—A. That is right.

Q. Turning for a moment from the matter of expenditure on advertising, may I ask if you have received complaints as to the contents of advertising by any of the companies or firms which come under your jurisdiction as money-lenders or in connection with the Small Loans Act?—A. Not very often, Mr. Fleming. Our practice, when a lender is first licensed, is to request the lender to submit his advertising "copy" to us for some time, until we see the tenor and nature of it. After six months or nine months, or, at the outside, a year, we do not regularly receive copies of their advertisements, it being thought likely that any difficulties or problems would have been brought to light during that period.

Q. Let us consider the last year or two. Are you in a position to say how many complaints have reached your department as to the contents of such advertising?—A. We have not had many, Mr. Fleming. I cannot recall any particular case, but Mr. Urquhart says there have been a few—not necessarily complaints from other lenders but from the public.

Q. I was thinking more in terms of the public. The public would, I think, be the natural source of complaints.—A. We also take the initiative, of course, in writing to some licensees about their advertising—about some particular advertisement which we do not think squares with our earlier understanding, or which for any other reason seems objectionable.

Q. Would that be with regard to newspaper advertisements?—A. Yes.

Q. Do you have anybody in your department who makes it his business to scrutinize such advertising?—A. No, not as a regular procedure.

By Mr. Philpott:

Q. On that same subject, do you ever encounter any objection to the form of advertising that is put out? One case I have in mind is that of the Personal Finance Company which sends whole sets of unsolicited advertisements to private individuals with a card, all made out and a return envelope, showing exactly how much money could be borrowed. Complaints about this sort of practice are typical of the kicks I get from people, as a member of parliament. People do not like to be bothered by this unsolicited material that comes through the mail.—A. I am familiar with that—

Q. It seems to me that at that point in your statement where you speak about expenses on advertising, and in your reference to the law in Britain, which has definitely prohibited this form of advertising—

Mr. FLEMING: Through the mail.

Mr. PHILPOTT: My experience is that this particular type of advertising is offensive to a great many people. In other words, if they are going to spend all this money, they should spend it through the newspapers—

The CHAIRMAN: You would have no connection with the newspapers, would you Mr. Philpott?

Mr. PHILPOTT: Only for thirty-three years!

The WITNESS: I think the attitude of a good many people toward practices of this kind is about the same as your own, Mr. Philpott. I doubt very much the value of this form of advertising.

Mr. PHILPOTT: Speaking seriously—I was only joking, of course, about newspapers, radio and television—I would think a distinction should be drawn between unsolicited advertisements that enter a person's home and other types of advertising. Unfortunately complaints are often made to me about it. I have a blistering letter here from a person who does not belong to my political party, and who is not even in my constituency but if I were to read some of his comments on this particular type of advertising to the advertising manager of this particular company, I would not think that manager would think it was so smart to send out this 10 or 15 cents worth of advertising matter.

The WITNESS: I think the present form is less offensive than an earlier edition which included an imitation cheque indicating the amount of money which a potential borrower might raise. My reaction to some of these circulars is the same as your own, and I have received two or three in the last six months.

By Mr. Monteith:

Q. Do not other firms advertise through the mail in the same way, selling felspar, paint or everything else?—A. I think the main reason for objection is that it is generally regarded as undesirable to encourage people to borrow. If they need to borrow, they will probably go looking for a source from which they could obtain money.

Q. Do not the chartered banks advertise?—A. Yes, but not to the extent of 5 per cent of their income.

Q. Possibly not, but are we in a position to tell any business exactly what percentage of revenue it should spend on advertising? I understand the patent medicine industry spends up to 80 or 90 per cent on advertising in certain instances.

Mr. CAMERON (Nanaimo): That is hardly an admirable example to take, I would think.

By Mr. Thatcher:

Q. I would like to ask Mr. MacGregor if he does not feel that there are certain advantages to the consumer, or to the person who is negotiating a loan, when this advertising is done. In other words, it seems to me that when these companies advertise it gives the public an opportunity to gauge the merits of one company against another, to compare the rates, and so on; it would seem to protect them against excessive charges. Would it not be reasonable to think that if the companies do advertise, the public can choose to do business with the one that gives the cheapest rates?—A. I do not think the advertisements generally contain much information of value for that purpose.

Q. I have seen advertisements giving various rates at which you can borrow. Do you see anything wrong with that?—A. The monthly instalments?

Q. Do you see anything wrong with that?—A. No, I do not.

Q. Then, there is a statement which you make on page 29 of your statement with regard to which I cannot understand your reasoning; I would appreciate it if you would comment further on it. You say:

“—the over-all competitive situation would be relatively unchanged if all licensees were to reduce their advertising by, say, one-half.”

Do you not think that if it advertises, a company is likely to get a greater volume of business and that, as a result, it will be able to give lower rates than if it were not able to carry out that advertising?—A. I think, as I say, that the relative position would be unchanged if they all cut their advertising in two. At present, because of the volume of advertising, the large lenders tend to smother out the smaller ones.

Q. That would certainly not be true in other fields of business I know of.

By Mr. Thatcher:

Q. If the main companies do not advertise some of the people may go to the banks and others will not borrow at all. I think it is conceivable that the total business would fall off substantially and that interest charges would rise.—A. At the present time, 80 per cent of the loans are made to repeat or current customers. It does not need much advertising to bring these people back.

Q. I certainly cannot agree with that point of view. But we will assume that the committee adopted your recommendation and that they cut rates by one-half. Have you any idea how much money would be saved by the company or, ultimately, by the consumer?—A. It would have saved \$860,000 last year.

Q. I have a handbook which I think is issued by Household Finance. They say that, on a \$1,200 loan with twelve monthly payments, the customer would save $2\frac{1}{2}$ per cent a month on this contract. I do not know whether or not that is correct, but if it is, would it not indicate that even if they cut their advertising by one-half, the saving to the consumer would be almost insignificant?—A. They could be saved one-half of 1 per cent per annum on their loans.

Q. It seems foolish to me to argue that by cutting advertising costs the company could increase its profits. It seems to me their profits in the long run would go down very substantially.—A. They are spending now about half of what they were spending in the 1930's and I think they are doing better than ever.

Q. I agree with Mr. Monteith that I do not think parliament should tell them what they may spend on advertising.

By Mr. Fleming:

Q. The percentages were cut in half but the actual amounts are very much larger.—A. Yes.

Q. I think that that is a distinction which has to be taken into account.—A. It has dropped from 10 per cent in the 1930's to 5 per cent now.

Q. But I think the amount spent might be more significant in trying to understand the whole question. You mentioned the figure of \$860,000. That is half?—A. Yes.

Q. The present total is about \$1,700,00 per annum?—A. Yes.

Q. What was the total amount spent back in the days when the percentage was about 10 per cent?—A. I would have to look it up. I do not have it handy.

By Mr. Monteith:

Q. I would like to ask Mr. MacGregor if it is not reasonable to assume that any company would spend only the amount on advertising which it believes would bring it a maximum return in business. In other words, it is not going to throw money away on advertising that it does not think will bring in business?—A. That may be so. But if there is a tendency for the field to become overcrowded—and I think there are signs of that now—I think it can be expected that licensees will step up their advertising in order to hold their present customers, if nothing else.

By Mr. Regier:

Q. Mr. MacGregor, would you be prepared to say that the cause of the people of Canada would be best served if advertising on the part of these companies was eliminated altogether?—A. It is difficult to answer that positively, Mr. Regier. It has always been felt that the main thing is to ensure that necessitous borrowers are aware of available facilities if they need a loan. That is why the legislation, as I understand, in Great Britain restricts advertising to such essential particulars as the name of the lender, his location, and so on; but nothing is permitted that would induce or encourage a person to borrow. Whether or not the complete abolition of advertising would be desirable is probably a debatable point.

By Mr. Quelch:

Q. Mr. Thatcher suggested that if advertising was cut down the borrowers might go to the banks. That would be to their advantage, if they would go where they would be borrowing at a much smaller percentage.—A. If the borrower can get a loan from the bank at a lower rate, yes.

By Mr. Thatcher:

Q. Do you not think that in Great Britain one of the main reasons for the excessive rates in the small loan field is because companies are not allowed to advertise over there? Do you not think advertising might prevent some of their high rates?—A. I would not say that the rates charged in Great Britain are excessive. Just because 4 per cent is mentioned in the Money-Lenders Act as a rough guide to a court should not, I think, be taken as an indication that 4 per cent per month is the prevailing rate of interest.

By Mr. Enfield:

Q. Do not these rates mentioned in the statutes usually create a minimum rate that lenders charge? Is not that the experience? Our rates do the same thing.—A. That has been the experience on this continent.

By Mr. Cameron (Nanaimo):

Q. That is with reference to an entirely different kind of statute. The 4 per cent rate referred to in Great Britain cannot be compared to the statutory limitation in our statutes, because it relates to an entirely different situation.—A. We have never associated it as being comparable.

By Mr. Thatcher:

Q. Has the department ever made any complaint to these companies requesting them specifically to reduce the amount which they are spending on advertising?—A. No, sir.

Q. Nor is there any intention of doing that?—A. No, sir.

By Mr. Fleming:

Q. Then, to what do you attribute the decline in the percentage from 10 to 5 per cent?—A. Mainly because of the great expansion in the volume of business. The absolute amount spent is larger.

MR. PHILPOTT: Mr. Chairman, I recall that, in this same committee, when the bank charters were up for review, we had very serious criticism of the Bank of Commerce because they did not spend enough money on advertising with respect to their loans.

MR. QUELCH: They were loaning money at a very much lower rate of interest and the people were not aware of that point.

Mr. CAMERON (*Nanaimo*): They are giving a desirable service and I think the point is that perhaps these people are not giving a desirable service.

By Mr. Regier:

Q. Would you not agree that a lot of the people who make loans from the finance companies as a result of the advertising would be able to make the same loans from the banks of Canada?—A. If they applied I have no doubt that quite a few people could. What proportion of them could do so I would hesitate to say.

Q. In other words, then, the advertising is not serving the public of Canada in its own best interests.

Mr. THATCHER: That is a pretty wide statement.

Mr. PHILPOTT: We could put the shoe on the other foot and say that the banks are not advertising enough.

Mr. REGIER: I do not represent any newspaper here and, therefore, I am not interested in excess advertising in any shape or form. However, I do feel that half of the people who now borrow money from the finance companies would, if they took into their confidence the manager of the branch bank, be able to obtain the same amount of a loan at a greatly reduced rate of interest.

The CHAIRMAN: I think that that is an opinion.

The WITNESS: Concerning salaries and director's fees, it will be seen that they average about 25 per cent of income, or very slightly less, but in the case of one small loans company the proportion is about 50 per cent above the average and in the case of the "all others" group of money-lenders, the proportion is about one-third above the average. The explanation of these higher levels would seem to lie in the fact that in most instances ownership of the business is closely held by a few individuals and profits are being indirectly withdrawn as salaries.

By Mr. Follwell:

Q. When you say "it will be seen that they average about 25 per cent of income, or very slightly less, but in the case of one small loans company the proportion is about 50 per cent above the average", do you mean that that they would average about 50 per cent above 25 per cent which is about 37½ per cent?—A. About 36 per cent.

Q. What company would that be?—A. The second company in table 7.

By Mr. Monteith:

Q. Would it not be reasonable to compare these figures with the net profit position after salaries and directors' fees, if you are going to make any comparison?—A. Yes, in one respect, except that the earnings of that particular licensee are relatively lower than for most other licensees.

Q. Net earnings?—A. Yes.

Q. The net profit after earnings is considerably lower than others?—A. Yes.

Q. Does not that tend to bear out my thought that the two figures should be taken together in order to come to any comparison?—A. One is a contributing factor to the other.

Q. Yes. A. That is right.

Looking at expenses as a whole, it may be said that about 50 per cent of the total income received from borrowers is used to defray losses and expenses other than income tax and interest on borrowed money, the other 50 per cent being left for interest, taxes and profit.

Table 8 gives an analysis of operations in recent years, the income, losses, expenses and gross earnings being shown as percentages of average assets during the year.

Table 7 was based upon income; table 8 is based upon average assets.

It will be noted that one small loans company has quite a low level of gross earnings compared with most other licensees and that this is caused by higher expenditures for "salaries" and "other expenses". If salary expenses in 1955 were reduced from 8.5 per cent of income to the general average, 5.2 per cent, the gross earnings would be raised to 10.0 per cent. A similar adjustment in earlier years would have shown even higher earnings. Part of the explanation for the higher expenses in this case may lie in a relatively small volume of business being handled by its branches than in other cases.

Mr. Humphrys draws to my attention an error in a remark that I made a few moments ago. I said: "If salaries expenses in 1955, were reduced from 8.5 per cent of income. . . ." In place of "income", that should read "average assets". This whole table is based upon average assets and not upon income.

By Mr. Monteith:

Q. You are referring to this one particularly company—A. Yes. The word "income" in this one particular company?—A. Yes. The word "income" in the second last line should be replaced by the words "average assets".

The lower level of income for the "all others" group of money-lenders results from a larger proportion of financing business relating to conditional sale agreements, and so on, carrying lower rates of charges. The higher expenses and lower gross earnings for this group in 1955 are explained by the high costs incurred by new licensees in 1954 and 1955 (see the footnote to table 9). And one may obtain the details by reference to table 4 also, where toward the bottom eight or nine new licensees are shown to have had substantial losses during 1954 and 1955. Excluding these new licensees, the gross earnings shown at 5.2 per cent in 1955 would be raised to 7.5 per cent.

There is a growing tendency in the industry to measure earnings in relation to the average assets or total funds employed, no distinction being made between the lender's own funds and borrowed funds, and in so doing to reduce the gross earnings not by the income taxes actually paid but by the taxes that would have been payable had no interest been paid on borrowed money. The right-hand column of table 8 lends itself readily to calculations of this kind; the percentages shown need simply be reduced by the applicable rate of income tax. In 1955, the tax rate was 20 per cent on the first \$20,000 of taxable income and 47 per cent on the excess. Consequently, the net rate earned on the average assets would be at least 53 per cent of the percentages shown in the table and in the case of small lenders with taxable incomes of \$20,000 or less the net rate would be 80 per cent. Most of the lenders in the "all others" group fall wholly or mainly within the 80 per cent bracket.

On this basis, the net rate would be about 7 per cent for the largest small loans company and 5½ to 6 per cent for most other licensees. If the percentage for the "all others" group in the table be raised from 5.2 to 7.5 per cent by excluding the new licensees, the net rate for this group would be of the order of 80 per cent of 7.5 per cent—6.0 per cent.

This method of computing the net rate earned on total funds employed does not of itself prove anything and must be used with great caution, especially in any attempt to compare earnings in this business with those in other businesses. It may, however, serve some purpose in comparing earnings with, say, those in the same industry elsewhere. In the various states of the U.S.A., the rates on this basis vary greatly—all the way from somewhat less than 3 per cent up to 7 per cent or more. There are very few less than 4 per cent but there are several less than 5 per cent.

The method just referred to for measuring net earnings is, of course, only one of several approaches to the problem and seems more appropriate for large

lenders—especially those operating with a relatively small capital and large borrowings from a parent organization—than for the smaller independent lenders. The more usual method of relating the actual net profits to equity capital seems more appropriate for the latter at least.

Table 9 carries forward the average assets and gross earnings from table 8 and also shows, for 1955, rates of earnings on two other bases. The first of these two, headed "net rate earned on average assets", has been included mainly to afford comparison with rates similarly computed in several states of the U.S.A. Under this method, the gross earnings are reduced by the income taxes actually paid and since the latter have been reduced through the treatment of interest on borrowed money as an expense, the net earnings are larger. In the states where this method is followed, rates of about 6 per cent are the most common.

The second additional set of rates expresses the final net profits, after taxes and interest on borrowed money, as a percentage of the lender's own funds represented by the paid capital, surplus paid in by shareholders, general reserves and the balance of the profit and loss account. Where a licensee is a subsidiary of a parent organization and operates mainly on funds borrowed from that organization the capital may be very small, thus giving rise to an inordinately high profit ratio. In these cases, the ratios are less meaningful than for the smaller independent lenders.

Coming now to the present situation, the main points that should be noted are the recent rapid shifting in loan activity from the present regulated field below \$500 to the field above; the enormous growth of loans in the latter area, especially up to \$1,000 but also in substantial volume up to \$1,500; the failure of competition to reduce the charges for the larger loans; and the mushrooming of lending facilities, with unprecedented interest in this business being manifested from both within and without the country. In addition, the abuses that have developed elsewhere in the arrangements made for insuring the lives of small borrowers at undue profit to the lender and the possibilities of similar abuses arising in the small loans field in Canada suggest the desirability of preventive action in this respect, especially if new, reduced, maximum permissible charges for loans are stipulated.

Concerning lending facilities generally, I think it is universally accepted that over-ample facilities are not good either from the social or economic point of view. Too many offices must tend to encourage people to borrow.

By Mr. Thatcher:

Q. Would you not say that in a city like Toronto or Montreal, additional offices throughout the city would be of service to the people who are making the loans? In other words, I am wondering if a person, say, in Toronto, who lived at one end of the city, and because of some restriction had to go away down town, would not have reason to complain?—A. Of course that is not the situation. As cities grow the lenders have, as a general practice, established new offices in the new localities.

Q. You are not opposed to that?—A. No. I have in mind, however, the undesirability of too many licensees opening offices in the same block, perhaps a half dozen within fifty yards of each other.

By Mr. Monteith:

Q. What is wrong with that?—A. There is nothing wrong with it in one sense; but it may very well result in unnecessary facilities being made available.

Q. Should not the company judge whether or not it will get sufficient business to justify opening an office?—A. Sometimes I think that offices are opened simply because another lender has opened an office there.

Mr. FLEMING: The gasoline stations also.

The CHAIRMAN: And the chain stores!

By Mr. Thatcher:

Q. Are you suggesting that such a privilege should be restricted in any way?—A. No, because I do not think it would be constitutional to attempt to do so, but I regret seeing the clustering of offices—this is my personal opinion—in one block, with all the neon signs. I think that it encourages people to borrow.

Q. At the moment your department does not tell the people in any way where they may locate?—A. Not a word.

By Mr. Monteith:

Q. Many businesses in larger cities all locate in one area so that the people can do all their shopping in one place. Why cannot a borrower go shopping from one office to another? If they are close together it will facilitate this result.—A. If that were the result there might be some value in it, but I do not think borrowers do that.

By Mr. Follwell:

Q. Would that not tend to permit some competition and perhaps improve efficiency to the benefit of the borrower?—A. It might, Mr. Follwell, but on the other hand I think it encourages people to borrow. The facilities are too handy.

Mr. QUELCH: A good example of that can be seen between O'Connor and Metcalfe streets on Sparks street. It is almost a "honky-tonk" there, with neon lights all over the place.

Mr. FOLLWELL: What is wrong with neon lights? I think they brighten up the place.

Mr. REGIER: It is about as reputable as a "red light district".

Mr. FAIREY: Speak for yourself!

Mr. REGIER: I am speaking for myself!

The CHAIRMAN: Entirely for yourself, I think; the rest of us are not acquainted with those areas!

Mr. PHILPOTT: I suppose that will be taken out of Hansard, too?

Mr. REGIER: I am prepared to let that remain in Hansard.

The WITNESS: In most lines of business, strong competition usually tends to keep the situation under reasonable control and to lower prices but experience points to the opposite effect in the small loans business. As competition increases, expenses are prone to rise through more aggressive advertising, the opening of additional lending offices in close proximity to those of competitors, and in other ways. Incidentally, the clustering of lending offices that is becoming increasingly evident in Canada is not generally permitted in the U.S.A., where the so-called rule of "convenience and advantage" is part of the law.

By Mr. Fleming:

Q. Could you enlarge on that please?—A. The general practice there is to license each office and to require a case to be made that a new office in any particular locality would be for the convenience and advantage of the public.

Q. Is that practice adopted under state or federal legislation?—A. Under state law. The so-called "convenience and advantage" rule is not in the small loans law of every state but it is in the law of many states.

Q. What proportion?—A. I would think half, or more than half.

Q. Is it, for instance, the practice in states such as we are most familiar with—states such as New York, Michigan, Pennsylvania and Ohio?—A. I think all three have it. I know New York has it. It is necessary to get a license there for every branch office.

Q. Do you want to take the responsibility for supervising that arrangement in Canada?—A. No sir.

The CHAIRMAN: That would fall within provincial jurisdiction, would it not? Would you consider that you would have the constitutional right to license any individual branch?

The WITNESS: I would not, sir.

The general practice there is to license each office rather than each lender only, and to require a case to be made that a new office in any particular locality is necessary for the convenience and advantage of the public. However, any such rule in the act would clearly be unconstitutional since it would not be legislation respecting interest. One might think that a lender could secure a competitive advantage by rate reductions but this course is seldom adopted, apparently through fear that such a course would only reduce income without increasing business. The ineffectiveness of rate reductions in competition, or the reluctance of lenders to make them, is probably attributable to a less acute cost consciousness on the part of borrowers than in the merchandising field generally or to a reluctance on the part of borrowers, after having established an account with one lender, to switch to another. In any event, whatever the reason, competition has been ineffective in controlling charges; otherwise, small loans laws would never have been necessary and the present rates charged for the larger unregulated loans would not be so high.

By Mr. Follwell:

Q. With regard to one borrower switching to another company, is it your thought that once a borrower has established a connection with a finance firm or a lender the firm concerned knows all about the applicant who could then probably negotiate a new loan more easily and quickly than by going to another company?—A. I think that is so but I also think that borrowing becomes a habit, and if a connection has been made with a particular lender it is probably only reasonable that a borrower will return to the same lender again unless he has some particular complaint. For one thing, he knows that he got a loan before and that he will probably get it again, so why should he shop elsewhere and go through the preliminary routine again of disclosing his personal affairs?

Q. That is your thinking on it?—A. Yes.

The CHAIRMAN: Would not the same be true with regard to a bank? As long as you get a loan from one bank you keep going there, but when you are turned down you shop around.

The WITNESS: I think that if a lender turned down an old customer he would probably go to another lender but I think that in most cases he returns to the same source; I do not think he does much shopping around.

By Mr. Fleming:

Q. I suppose it depends on his credit record.—A. The experience strongly suggests what I have been saying, namely, that about 80 per cent of the loans made in the small loans area are to repeat or current customers of the same lender.

Q. Does that statistic go any further and tell you whether those repeat loans are in respect—or to what extent they are in respect—of loans not previously fully paid off, and how many are new loans?—A. The people we call current borrowers are borrowers who have reduced their indebtedness but who want more money. They have a current account, so to speak, with the lender.

Q. But if John Jones, having borrowed, say, \$500, has at the end of the period of the loan paid back the \$500 and then negotiates another loan, is that classified as repeat?—A. Yes. We call a repeat borrower one who has paid off his loan in full but who, after a short interval, comes back and negotiates another loan. In our published report at the foot of the several tables and more particularly on page 59 we state:

By 'new' is meant persons who are not previous borrowers from the lender; by 'repeat' is meant persons who had fully discharged all earlier loans from the lender; by 'current' is meant persons with earlier loans from the lender undischarged.

Q. That is, not totally discharged—they might be discharged in part?—A. That is so.

By Mr. Monteith:

Q. And that figure of 80 per cent covers both repeat and current loans?—A. Yes. Most of them are current.

Q. Can you break down that figure of 80 per cent and tell us what proportion is, on your classification, made up of repeat loans and what is made up of current loans?—A. In 1954—I have those figures available—65 per cent of all loans made in the small loan area were to current borrowers; 14 per cent were to repeat borrowers and 21 per cent to new borrowers.

Q. Is that by number of loans?—A. By amount.

By Mr. Fleming:

Q. Would you have some other information on the number of loans?—A. We could get it rapidly, Mr. Fleming. Perhaps Mr. Humphrys here could do a little arithmetic. I could give it to you in a minute.

The desirability of extending the scope of the act and of setting lower rates of charges for the larger loans was expressed in a brief submitted in 1955 by the Canadian Consumer Loan Association whose membership comprises most of the licensed lenders. The recommendations in that brief were undoubtedly conceived with the best interests of borrowers and the business in mind and were prompted in part by the unsatisfactory practices being followed by unlicensed lenders in the unregulated field above \$500. The principal recommendations were that the scope of the Act be extended to \$1,500 and that a graded maximum scale of charges be set rather than a flat rate, being 2 per cent per month on the first \$500 of any loan, plus 1½ per cent per month on any excess over \$500 but not over \$1,000, plus 1 per cent per month on any excess over \$1,000 up to \$1,500. For a \$500 loan, this scale involved no change from the present monthly rate of 2 per cent; for a \$1,000 loan, the equivalent flat monthly rate would be about 1.86 per cent; and for a \$1,500 loan, about 1.69 per cent.

The main justification for high rates of charges on personal loans is that the amounts are usually small and the periods relatively short. Many expenses, such as those for investigating the security, bookkeeping, etc., are substantially the same regardless of the size of loan and hence call for a high percentage charge when expressed in terms of a small amount, the percentage decreasing as the size of loan increases. One feature that must tend to reduce

expenses in an established business in the frequency with which "current" or "repeat" borrowers return for additional loans since the security of these borrowers has already been investigated and their records have already been established.

By Mr. Follwell:

Q. You suggest there that current borrowers would just continue on the same security that they have, and they might go on for years?—A. They might. If the borrower has given a chattel mortgage on his furniture for a \$200 loan that might serve for a later loan of \$500 or \$600. The security has been investigated and the lender has the advantage of knowing whether the borrower is dependable or not.

Q. Are you making that a point—that on account of this current business there would be an opportunity of expense reduction and even of rate reduction?—A. I think so. I think it is an element that should be considered because surely if lenders are dealing with the same people over and over again it ought to cost less to investigate their records and investigate their security. It is not as if they were dealing with a wholly new borrower in every case.

Mr. QUELCH: That is a point which is bound to be a strong one, surely.

The WITNESS: It is impracticable, because of the variables involved, to determine a scale of charges that precisely corresponds to the costs of every level. The best that can be done is to adopt a scale that results in a reasonable degree of fairness to all borrowers. For loans up to \$500, or perhaps somewhat higher, a flat rate may be justified but for larger loans a graded rate is essential. It is undesirable to have arbitrary breaks in the formula such as result from a flat rate for loans up to a certain amount, another flat rate for loans within a certain range beyond, etc. Instead, a formula of the kind recommended by the association, which involves the application of graded rates to the successive tiers or layers of each loan, is generally more satisfactory. This kind of formula has been adopted in most states of the U.S.A., even for loans up to \$300 or \$500.

The determination of an appropriate scale of maximum rates is a most difficult problem and in some ways is almost an intractable problem because a rate that is adequate to enable most small lenders to make a profit results in most large lenders making inordinately high profits. The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities, especially for needy borrowers of small amounts, and yet of securing the best procurable rate.

Traditionally, the primary function of the small loans industry is to provide facilities for needy borrowers of small amounts and if the operations of the industry are to extend to larger and larger loans the rates charged should come down to levels at which borrowers may reasonably expect to find facilities available. A relatively high rate for a remedial loan of a few hundred dollars may be justifiable by reason of the impact of expenses but it is much more difficult to justify the same high rate for larger loans. It would seem to be a serious matter for a borrower of \$1,000 or more to become saddled almost continuously, as many borrowers do, with charges at an unduly high level. If the small loans industry cannot provide borrowing facilities for larger amounts at more reasonable rates, the question arises whether other means of providing the necessary facilities ought not to be explored. The situation that has developed rapidly in recent years in Canada is one where the small loans industry has suddenly found itself with a vast new virgin field of larger loans open to it, a field relatively free from substantial competition. In the U.S.A., the banks occupy a very large part of this field and in several

important states the small loans companies are effectively restricted to the small loans field up to \$500 because of the low rate prescribed by the usury laws for larger loans; in certain states, the small loans companies are specifically prohibited from making loans above the regulated areas. If the small loans industry in Canada is to become entrenched as the main source of personal loans in this broader field, a heavy responsibility rests upon the industry to provide the necessary facilities with maximum efficiency and at minimum cost which, I think, means at rates very substantially lower than charged for loans of \$500 or less. It would be unfortunate if lenders are permitted to become accustomed to unduly high rates in the larger loan field for, like personal finances, expenses are usually not long in rising close to the level of income.

By Mr. Follwell:

Q. You say that in the United States the banks have entered a very large part of this field, and so on. I want to ask you about the banks. Are the banks in the United States permitted to get a higher rate of interest for this type of loan than banks in Canada? Do they charge a higher rate than the banks in Canada?—A. I should not like to speak as an authority on banking practice in the United States, because I am not, but I understand that, in the state of New York, perhaps 80 per cent of the personal loans are made by the banks. That statement was made in the "Journal of Commerce" a few months ago. In some states I think there are particular provisions in the banking law governing personal loans. In New York state, I believe the banks charge about 4 per cent discount which means an effective interest rate about double that. In some other states, I know they charge about 6 per cent discount which effectively means about 12 per cent interest. I would think that is near the upper limit of the charges made by the banks in the United States but some of the representatives of the American companies may be able to throw more light on this when they appear later.

By Mr. Quelch:

Q. They would be very similar to the charges made by the Bank of Commerce, then?—A. Yes, they would, Mr. Quelch.

By Mr. Enfield:

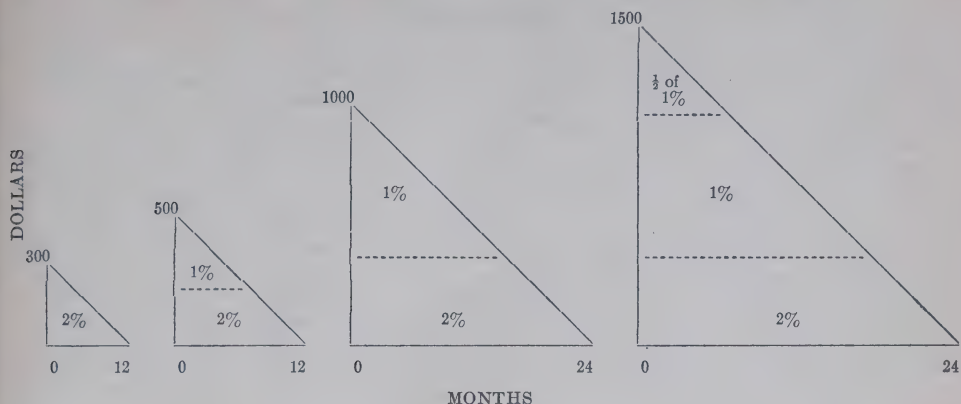
Q. What does this last phrase mean: "Expenses are usually not long in rising close to the level of income"?—A. I had in mind that as one's salary increases, somehow or other expenses seem to increase, too, with the result that there is never much more left over. One spends more, and the very fact that there is such a variety in the maximum permissible rates in the several states of the United States, bears out that idea, I think, because there is not the same variety in profit ratios.

By Mr. Fleming:

Q. What you would have in mind in reading that somewhat discouraging and rather despondent statement, was largely government taxation, was it not?

The maximum scale of charges proposed in the present bill, namely, 2 per cent per month on the first \$300 of any loan, plus 1 per cent per month on any excess over \$300 but not over \$1,000, plus $\frac{1}{2}$ of 1 per cent per month on any excess over \$1,000 up to \$1,500, is the equivalent of a flat rate of 2 per cent per month on loans up to \$300, 1.81 per cent on a \$500 loan, 1.48 per cent on a \$1,000 loan and 1.27 per cent on a \$1,500 loan, in each case on the assumption that the loan runs its full period and is not prepaid or refinanced earlier. In round figures, this means a rate of about $1\frac{1}{2}$ per cent per month on a \$1,000 loan and $1\frac{1}{4}$ per cent on a \$1,500 loan. Having regard for the

incidence of expenses, these rates are, in my opinion, reasonably in balance with a rate of 2 per cent for the smaller loans. Pictorially, the layers of a loan carrying the various percentages mentioned, would look like this:



These diagrams show the element of a loan to which the 2 per cent rate would apply, the element to which the 1 per cent rate would apply, and the element or layer to which the rate of half per cent would apply.

By Mr. Regier:

Q. In view of the statement we have had handed to us regarding the position in the various states of the United States, would you be prepared to say that the proposed rate of one and one-quarter per cent on a loan of \$1500, compares very favourably with the kind of rates being allowed in the United States on a loan of that size? I noticed that 19 out of the 33 states listed on the sheet handed to us this morning had very severe limitations on interest rates allowed on loans in excess of \$1500. Have you any idea as to the comparison of $1\frac{1}{4}$ per cent on a \$1500 loan and that allowed south of the border?—A. In interpreting any graded formula one must remember that the basic element carrying the high rate has a very important effect on the over-all rate. The rate of one-half of one per cent applying to the upper element has not nearly the same effect on the over-all rate as the rate applicable to the basic element, because the basic element carries right through to the end of the loan. I would say that the rates proposed compare very favourably and on the whole are a bit lower, perhaps, than the rates prescribed for loans of that amount in the United States, but there are not very many states which do cover loans up to \$1500 yet. I would say this, in addition, that if the formulae in states such as New York, New Jersey and Connecticut which presently apply only to loans up to \$500 were extended on the same basis, some of those rates might well be less than these proposed rates.

An Hon. MEMBER: I move we adjourn.

The CHAIRMAN: Gentlemen, it is 5.30 and I suggest we adjourn until 3.30 p.m. on Tuesday next, on which day we shall have two meetings, at 3.30 p.m. and at 8.15 p.m.

APPENDIX "A"

LIST OF LICENSEES OWNED DIRECTLY OR INDIRECTLY BY U.S. PARENT COMPANIES AS AT DEC. 31, 1955

Name of Licensee	U.S. Parent Company	Number of common shareholders in parent company	Shares of parent company listed on exchange
1. Canadian Acceptance Company ...	C.I.T. Financial Corp. which owns Canadian Acceptance Corp. Ltd., which owns licensee.	23,895	New York
2. Household Finance Corporation of Canada	Household Finance Corporation which owns Household Securities Ltd. which owns licensee.	8,909	New York
3. Personal Finance Company of Canada	Beneficial Finance Co.	23,264	New York
4. Associates Budget Plan Limited.	Associates Investment Co., which owns Associates Discount (Canada) Ltd., which owns licensee	5,797	New York and Midwest
5. Citizens Finance Company Limited (formerly Blake Pierce Finance Limited)	Equitable Credit Corp.	23	
6. Commercial Credit Plan Limited.	Commercial Credit Co., which owns Continental Guaranty Corp. of Canada Ltd., which owns licensee.	30,298	New York
7. Custom Finance Limited.....	Messrs. J. P. O'Connell and G. A. O'Connell, Seattle, Wash.		
8. Pacific Finance Credit Limited (formerly P.F. Credit Limited)	Pacific Finance Corp., which owns Pacific Finance Corp. of Canada Ltd. which owns licensee.	3,450	New York and Los Angeles
9. Seaboard Finance Company of Canada Limited	Seaboard Finance Co.	13,955	New York and Los Angeles

Additional Licensee in 1956 up to June 30

10. Civic Finance Company Limited	Capital Finance Co.	Owned locally in Ohio, number of shareholders not available	
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APPENDIX B

APPENDIX

ABSTRACT OF 1955 FINANCIAL STATEMENT OF LICENSEES

Name of Licensee	Average Amounts During 1955		
	Total Assets (less reserves for bad debts and unearned charges)	Total Paid Capital, Surplus Paid in, and Balance of P. & L. account	Total Borrowed Money
Canadian Acceptance Co.....	541,729	475,617	48,088
Household Finance Corp. of Canada.....	55,365,364	8,554,420	45,406,905
Personal Finance Co. of Canada.....	53,518,761	14,926,756	37,056,530
Associates Budget Plan Ltd.....	629,461	51,689	577,526
Citizens Finance Co. Ltd.....	6,766,962	326,371	2,924,500
Commercial Credit Plan Ltd.....	2,595,536	436,315	2,112,500
Custom Finance Ltd.....	164,072	42,091	120,569
Pacific Finance Credit Ltd.....	1,164,784	637,416	500,000
Seaboard Finance Co. of Canada Ltd.....	118,774	117,497	428
Totals.....	120,865,443	25,568,172	88,747,046
(Unlicensed) (Household Finance Corp. Ltd.).....	(70,398,164)	(4,783,466)	(63,800,735)

INCOME AND EXPENDITURE DURING 1955

	Income	Net Amounts written off plus net transfers to reserves for bad debts	Advertising
Canadian Acceptance Co.....	56,875	(—) 1,541	447,419
Household Finance Corp. of Canada.....	12,447,495	254,436	560,719
Personal Finance Co. of Canada.....	11,805,371	509,811	560,719
Associates Budget Plan Ltd.....	85,201	38,327	28,632
Citizens Finance Co. Ltd.....	633,386	6,989	27,861
Commercial Credit Plan Ltd.....	559,990	38,781	30,059
Custom Finance Ltd.....	14,330	13,204	1,643
Pacific Finance Credit Ltd.....	121,945	33,304	49,268
Seaboard Finance Co. of Canada Ltd.....	449	1,000	944
Totals.....	25,725,042	894,311	1,146,545
(Unlicensed) (Household Finance Corp. Ltd.)	(16,395,287)	(1,162,508)	(325,325)

"B"

OWNED DIRECTLY OR INDIRECTLY BY U. S. PARENT COMPANIES

Amounts at end of 1955

Paid Capital	Surplus Paid in	Balance of P & L account	Total Paid Capital, Surplus Paid in, and Balance of P. & L.	Banks	Borrowed Parent companies and affiliates	Money Other Sources	Total
250,000		237,339	487,339		28,502		28,502
3,072,500	15,379	5,232,003	8,319,882		44,791,760		44,791,760
1,000,000	9,350,000	5,565,176	15,915,176	9,300,000	32,690,530		41,990,530
100,000		(—) 95,923	4,077		1,155,052		1,155,052
112,000		240,785	352,785		4,080,000		4,080,000
50,000	10,000	426,886	486,886		2,635,000		2,635,000
100,000		(—) 15,818	84,182	156,157		84,980	241,137
1,500,000		342,733	1,157,267		1,000,000		1,000,000
250,100		15,107	234,993		855		855
6,434,600	9,375,379	11,232,608	27,042,587	9,456,157	86,381,699	84,980	95,922,836
(500,000)	(375,000)	(4,640,529)	(5,515,529)	(.....)	(80,233,178)	(.....)	(80,233,178)

Salaries and directors fees	Other expenses except income tax and interest on borrowed money	Total Losses and Expenses except income tax and interest on borrowed money	Gross Earnings before income tax and interest on borrowed money	Interest on Borrowed Money	Income Tax	Dividends to shareholders
7,128	6,718	12,305	44,570		21,126	
2,809,418	1,850,811	5,362,084	7,085,411	2,024,017	2,406,636	2,891,940
2,679,196	1,993,993	5,743,719	6,061,652	2,009,411	2,035,400	40,000
36,547	58,882	162,388	(—) 77,187	18,037		
176,368	150,413	361,631	271,755	158,983	36,658	
160,755	47,104	276,699	283,291	92,250	89,900	
5,055	6,977	26,879	(—) 12,549	1,786		
182,186	165,282	430,040	(—) 308,095	9,167		
2,228	11,385	15,557	(—) 15,108			
6,058,881	4,291,565	12,391,302	13,333,740	4,313,561	4,589,720	2,931,940
(2,042,765)	(1,337,881)	(4,868,479)	(11,526,808)	(2,815,944)	(4,107,592)	(3,085,000)

APPENDIX "C"

NUMBER OF OFFICES IN CANADA OF CHARTERED BANKS, CREDIT UNIONS AND LICENSEES UNDER SMALL LOANS ACT

As at Dec. 31	Bank Branches	Credit Unions	Licensees under Small Loans Act
1950.....	3,679	2,965	384
1953.....	3,933	3,606	536
1954.....	4,089	3,920	605
1955.....	4,245	*	772

* Not yet available.

APPENDIX "D"

CONSUMER CREDIT OUTSTANDING IN CANADA

At end of	INSTALMENT CREDIT				Totals
	Charge Accounts (1)	Retail Dealers (2)	Finance Companies (3)	Cash Personal Loans (4)	
	Millions of Dollars				
1950 2nd Qtr.....	313	138	162	346	959
3rd ".....	331	145	192	374	1,042
4th ".....	377	170	202	386	1,135
1951 1st ".....	370	166	216	394	1,146
2nd ".....	385	145	224	400	1,154
3rd ".....	376	125	215	386	1,102
4th ".....	420	126	186	388	1,120
1952 1st ".....	379	119	176	385	1,059
2nd ".....	405	167	265	420	1,257
3rd ".....	416	198	334	437	1,385
4th ".....	456	245	373	460	1,534
1953 1st ".....	426	248	423	479	1,576
2nd ".....	450	256	520	526	1,752
3rd ".....	450	262	545	547	1,804
4th ".....	493	286	512	569	1,860
1954 1st ".....	452	276	491	579	1,798
2nd ".....	465	292	515	618	1,890
3rd ".....	464	289	520	640	1,913
4th ".....	505	319	483	667	1,974
1955 1st ".....	461	289	473	684	1,907
2nd ".....	491	312	532	754	2,089
3rd ".....	535	309	578	790	2,212

(1) Charge accounts receivable outstanding on the books of retail dealers.

(2) Instalment receivables outstanding on the books of retail dealers.

(3) Instalment paper held by sales finance and acceptance companies in connection with the financing of retail purchases of consumer goods, largely new and used automobiles.

(4) Includes estimated personal loans by chartered banks, small loan companies, licensed money-lenders and credit unions.

SOURCE: Canadian Statistical Review, May 1956.

APPENDIX "E"

SHAREHOLDERS OF H. BELL FINANCE LIMITED, NEW WESTMINSTER, B.C.

	Number of Shares	Amount Subscribed	Amount paid in cash
H. W. Bell, New Westminster.....	100	\$10,000	\$10,000
J. M. Streight, New Westminster.....	125	12,500	12,500
W. E. Davies, New Westminster.....	125	12,500	12,500
Totals.....	350	\$35,000	\$35,000

APPENDIX

SMALL LOANS ACT—LICENCES TERMINATED

Name of Licensee	Head Office in	Date of Licence
Associated Financial Brokers Limited.....	Vancouver.....	Jan. 10, 1940
Blake Pierce Finance Company (Partnership).....	Windsor.....	Sept. 20, 1941
Bradley Loan and Finance Company (Partnership).....	London.....	Jan. 1, 1940
Bradley Finance Limited.....	London.....	Oct. 6, 1944
Campbell Finance Corporation, Limited.....	Toronto.....	Mar. 31, 1947
Capital Economy Corporation.....	Montreal.....	Jan. 5, 1940
Capital Finance & Realty Limited.....	Toronto.....	June 27, 1940
Capital Finance Corporation Limited.....	Edmonton.....	Apr. 2, 1941
Cobourg Acceptance Company Limited.....	Chatham, Ont.....	Aug. 10, 1948
The Commercial Acceptance Corporation.....	Montreal.....	Feb. 8, 1940
Commercial Contracts Limited.....	Ottawa.....	Jan. 6, 1940
Commercial Securities Corporation Limited.....	Winnipeg.....	Apr. 1, 1940
Consolidated Finance Co., Ltd.....	Vancouver.....	Nov. 23, 1951
Contract Discounts Limited.....	Toronto.....	Jan. 4, 1940
Credit Moderne Limitee.....	Montreal.....	Feb. 16, 1940
Economy Finance Corporation Limited.....	Toronto.....	Jan. 1, 1940
Edmonton Credit Company Limited.....	Edmonton.....	Apr. 30, 1940
(a) Family Loan Corporation Limited.....	Halifax.....	Jan. 1, 1940
Freehold Finance Corporation.....	Montreal.....	Jan. 5, 1940
(b) General Finance Cape Breton Limited.....	Sydney, N.S.....	Jan. 12, 1940
General Finance Eastern Limited.....	New Glasgow, N.S.....	Jan. 1, 1940
(c) General Finance (Saint John) Limited.....	Saint John, N.B.....	Jan. 9, 1940
Harris Finance Company (Clarence F. Harris).....	Windsor.....	Mar. 6, 1940
Home Finance Corporation Limited.....	Montreal.....	Jan. 12, 1950
Household Finance Corporation Limited.....	Toronto.....	Jan. 1, 1940
(d) Imperial Agencies Limited.....	Winnipeg.....	Feb. 1, 1940
Industrial Credit Company (Guy R. Handfield).....	Montreal.....	Feb. 14, 1940
Inland Finance Limited.....	Winnipeg.....	Jan. 1, 1940
Inter-Provincial Financiers Limited.....	Winnipeg.....	Jan. 1, 1940
Merchants Discount Corporation.....	Vancouver.....	Jan. 1, 1940
(e) Mersey Loan and Finance Limited.....	Toronto.....	Jan. 1, 1940
(f) Monarch Finance Company (Ida Geller).....	Liverpool, N.S.....	Jan. 10, 1940
(g) Monarch Securities Limited.....	Sudbury.....	Feb. 10, 1940
Mutual Financial Aid Society.....	Vancouver.....	Feb. 21, 1940
National Loan & Acceptance Company.....	Vancouver.....	Jan. 18, 1940
O'Neill, Clarence F.....	Montreal.....	Mar. 13, 1940
(h) Personal Loan and Finance Limited.....	Toronto.....	Apr. 17, 1940
Preferred Credit Service Limited.....	Fredericton.....	Jan. 9, 1940
Quinte Finance and Securities Limited.....	Toronto.....	Jan. 18, 1940
Regal Finance Limited.....	Belleville.....	Jan. 1, 1940
Small Loans Reg's (Creighton C. Richardson).....	Toronto.....	Dec. 2, 1947
Standard Credit Corporation.....	Montreal.....	Jan. 15, 1940
(i) Standard Finance Limited.....	Montreal.....	Feb. 7, 1940
Star Discount (Partnership).....	Truro, N.S.....	Jan. 15, 1940
Sterling Finance Corporation Limited.....	Toronto.....	Jan. 12, 1940
Strand Finance (M.R. Farewell).....	Edmonton.....	Jan. 12, 1940
Toro Finance Company (Partnership).....	Hamilton.....	June 27, 1940
Trenton Finance Company Limited.....	London.....	Jan. 1, 1940
Winnipeg Loan Company (Partnership).....	Trenton.....	July 8, 1947
Winnipeg Loan Company (Jacob Mesbur).....	Winnipeg.....	Jan. 18, 1940
York Finance Company.....	Winnipeg.....	Mar. 7, 1941
	Toronto.....	Jan. 17, 1940

(a) Paid capital impaired to the extent of \$17,800 in 1954 and \$14,889 in 1955. (Paid capital in 1955=\$32,920)

(b) Paid capital impaired to the extent of \$17,337 in 1940 and \$25,353 in 1942. (Paid capital in 1942=\$33,738)

(c) Paid capital impaired to the extent of \$6,770 in 1940 and \$7,024 in 1941. (Paid capital in 1941=\$39,340)

(d) Paid capital impaired to the extent of \$36,892 in 1940 and \$41,774 in 1942. (Paid capital in 1942=\$56,888)

(e) Paid capital impaired to the extent of \$5,688 in 1940 and \$6,318 in 1941. (Paid capital in 1941=\$13,000)

(f) Charged excessive rates.

(g) Company went into liquidation approximately one month after becoming licensed and no statement was received.

(h) Paid capital impaired to the extent of \$1,425 in 1940 and \$2,234 in 1941. (Paid capital in 1941=\$15,200)

(i) Paid capital impaired to the extent of \$1,273 for small loans and \$29,450 for other business in 1940; and \$27,588 for small loans and \$144,575 for other business in 1953. (Paid capital in 1953=\$185,732).

"F"

AND THE REASONS THEREFOR

Date Licence Terminated	Reorganization of licensee, including change of name	Licensee voluntarily discontinued making new small loans but continued to administer loans on the books until finally liquidated	Small loans sold to another licensee	Voluntary liquidation of business of licensee	Licence terminated at instance of Department
Mar. 31, 1947	.....	x			
May 1, 1947	x				
Oct. 6, 1944	x				
Jan. 1, 1953	x				
Mar. 31, 1948	x				
Mar. 31, 1944	.....		x		
Feb. 19, 1947	x				
Mar. 31, 1952	.....	x			
Sept. 30, 1954	.....	x			
Mar. 5, 1954	x				
Mar. 31, 1943	.....		x		
Mar. 31, 1951	.....		x		
July 15, 1953	x				
Mar. 31, 1944	.....	x			
Mar. 31, 1944	.....	x			
Mar. 31, 1949	.....		x		
Mar. 31, 1944	.....	x			
Mar. 30, 1956	.....				(a)
Mar. 31, 1941	.....	x			
Mar. 31, 1944	.....			(b)	
Mar. 31, 1951	.....	x			
Mar. 31, 1944	.....			(c)	
Sept. 20, 1941	.....		x		
June 30, 1955	.....	x			
Jan. 1, 1948	.....		x		
Mar. 31, 1943	.....			(d)	
Mar. 31, 1944	.....		x		
Dec. 16, 1946	.....		x		
Mar. 31, 1943	.....		x		
Apr. 7, 1942	x				
June 8, 1942	.....			(e)	
Dec. 19, 1940	.....				(f)
Mar. 31, 1940	.....			(g)	
Mar. 31, 1944	.....	x			
Mar. 31, 1949	.....		x		
Nov. 29, 1946	x				
Mar. 31, 1944	.....			(h)	
Mar. 31, 1953	.....	x			
Mar. 31, 1943	.....	x	x		
Mar. 31, 1953	.....	x			
Mar. 31, 1943	.....		x		
Sept. 30, 1954	.....	x			
Dec. 31, 1954	.....				(i)
Mar. 31, 1953	.....	x			
Mar. 31, 1943	x				
Oct. 1, 1954	x				
Sept. 30, 1949	x				
Mar. 31, 1953	.....		x		
Mar. 7, 1941	x				
Mar. 31, 1948	.....		x		
Sept. 30, 1943	.....	x			
Totals.....	13	15	14	6	3

APPENDIX "G"

SUMMARY OF MAXIMUM PERMISSIBLE CHARGES AND MAXIMUM LOAN UNDER
SMALL LOANS LAWS OF THE SEVERAL STATES OF THE U.S.A.

FLAT MONTHLY RATES

	Maximum Monthly Rate	Maximum Loan
	%	\$
Florida.....	3½	300
Idaho.....	3	300
Maryland.....	3	300
Massachusetts.....	2	300
Minnesota.....	3	300
Missouri.....	2.218	400
Rhode Island.....	3	300

GRADED MONTHLY RATES

	On amount up to		On Excess Over Up to			On Excess Over Up to			Maximum Loan
	%	\$	%	\$	\$	%	\$	\$	\$
Arizona.....	3	300	2	300	— 600				600
California.....	2½	100	2	100	— 500	5/6	500	— 5,000	5,000
Colorado.....	3	300	1½	300	— 500	1	500	— 1,500	1,500
Connecticut.....	3	100	2	100	— 300	½	300	— 500	500
Illinois.....	3	150	2	150	— 300	1	300	— 500	500
Indiana.....	3	150	1½	150	— 500				500
Iowa.....	3	150	2	150	— 300				300
Kansas.....	3	300	5/6	300	— 2,100				2,100
Kentucky.....	3½	150	2½	150	— 300				300
Louisiana.....	3½	150	2½	150	— 300				300
Maine.....	3	150	2½	150	— 300	1½	300	— 2,500	2,500
Michigan.....	3	50	2½	50	— 300	½	300	— 500	500
Nebraska.....	3	150	2½	150	— 300	¾	300	— 1,000	1,000
Nevada.....	3	300	1	300	— 1,500				1,500
New Jersey.....	2½	300	½	300	— 500				500
New Mexico.....	3½	150	3	150	— 300	1	300	— 1,000	1,000
New York.....	2½	100	2	100	— 300	½	300	— 300	500
Ohio.....	3	150	2	150	— 300	2/3	300	— 1,000	1,000
Oregon.....	3	300	2	300	— 500	1	500	— 1,500	1,500
Pennsylvania.....	3	150	2	150	— 300	1	300	— 600	600
South Dakota.....	3	300	¾	300	— 2,500				2,500
Utah.....	3	300	1	300	— 600				600
Vermont.....	2½	125	2½	125	— 300				300
Virginia.....	2½	300	1½	300	— 600				600
Washington.....	3	300	1	300	— 500				500
West Virginia.....	3½	150	2½	150	— 300				300
Wisconsin.....	2½	100	2	100	— 200	1	200	— 300	300
Wyoming.....	3½	150	2½	150	— 300	1	300	— 1,000	1,000
Alaska.....	4	300	2½	300	— 1,000				1,000
Hawaii.....	3½	100	2½	100	— 300				300

COMBINATION OF INTEREST AND FEES

	Maximum Rate	Maximum Loan
Georgia.....	8% discount or add-on per annum, plus fees of \$1 and 8% of first \$600 of face amount and 4% of excess over \$600; delinquency fine of 5% of instalment due.	\$2,500
New Hampshire.....	2% per month, plus fee of \$1 in advance for loans up to \$50 and \$2 for larger loans up to \$300.	300
Oklahoma.....	10% per annum, plus initial fee of 5% of face amount, not exceeding \$15, plus monthly fee of 2% on unpaid balance, not exceeding \$2.	300
South Carolina.....	6% discount or add-on per annum, plus initial fee of 6% of face amount plus monthly fee not exceeding \$1.75; delinquency fine of 5% of instalment due.	200

LARGELY OR WHOLLY INOPERATIVE LAWS

	Maximum Rate
Alabama.....	8% per annum on loans up to \$300.
Delaware.....	6% discount per annum on loans up to \$500; investigation fee of 2% of face amount; delinquency fine of 5% of instalment due.
District of Columbia.....	1% per month on loans up to \$200.
Mississippi.....	10% per annum, plus fees.
North Carolina.....	6% discount per annum, plus fees.
Tennessee.....	6% per annum on loans up to \$300, plus fees not exceeding 1% per month.
Texas.....	10% per annum.

NO SMALL LOANS LAWS

Arkansas
Montana
North Dakota

LIST OF SHAREHOLDERS

(As at December 31, 1955)

Name	Address	Number of shares	Amount subscribed	Amount paid in cash
			\$ cts.	\$ cts.
A. G. Climans.....	1603 Bathurst St.....	4,794	34,098 00	34,098 00
James Climans.....	33 Glen Rush Blvd.....	41	4,001 00	4,001 00
Anne Climans.....	1603 Bathurst St.....	1	1 00	1 00
.....
.....
.....

(To be furnished in a separate schedule, if more space is necessary)

LIST OF PARTNERS

(As at December 31, 1955)

Name	Address	Amount invested in the business
		\$ cts.
.....
.....
.....
.....
.....
.....
.....

ASSETS

		\$ cts.
1. Balances of *small loans.....	\$ 28,373 03	
2. Income due and accrued on item 1.....	384 33	28,757 36
		28,757 36
3. Balances of loans in excess of \$500.....	\$ 604,028 43	
4. Income due and accrued on item 3.....		604,028 43
5. Balances of conditional sale agreements and other contracts not included above.....		Nil
6. Cash on hand.....		11,794 43
7. Cash in bank.....		
8. Other assets:—		
(a) Office furniture and fixtures.....		1,323 57
(b) Accounts and bills receivable.....		
(c) Prepaid Rent.....		180 00
(d) Automobile.....		3,857 28
(e)		
(f)		
(g)		
(h)		
(i)		
(j)		
Total assets		
9. Deductions:—		
(a)	\$.....	
(b)		
(c)		
10. Net assets		649,941 07

*The term "Small Loans" as used in this statement means loans originally of \$500 or less and includes advances of such amounts made under (1) contracts of sale with right of redemption and (2) sale with conditional re-sale.

LIABILITIES

		\$	cts.
1. Borrowed money:—			
(a) Cheques Outstanding.....	\$ 7,207 42		
(b) Bank Overdraft.....	249,680 68		
(c) Loans Payable.....	97,265 02		
(d)			354,153 12
2. Taxes, licences and fees due and accrued:—			
(a) Income Tax Act (Dominion).....	\$ 16,954 22		
(b) Provincial Corporation Income Tax Acts.....			
(c) Other: Dominion, \$.....; Provincial, \$.....			
(d) Municipal.....			16,954 22
3. Other liabilities:—			
(a) Accounts payable.....			812 68
(b) †Unearned charges, if any, on loans over \$500.....			45,300 00
(c) Unearned charges, conditional sale and other contracts.....			
(d) Dealers' reserves and holdbacks conditional from sales contracts.....			
(e) Other (give details) Income Tax Deductions.....			17,709 55
4. Reserve for bad and doubtful accounts:—			
(a) *Small loans.....	\$ 908 43		
(b) Loans in excess of \$500.....	5,757 38		
(c) Conditional sale agreements and other contracts.....			6,665 81
5. Contingency reserve.....			
6. Dividends to shareholders declared and unpaid.....			
7. Capital paid in cash.....			38,100 00
8. Surplus:—			
(a) *Small loans.....	\$ 10,634 19		
(b) Business other than small loans.....	159,611 50		
9. Total liabilities			170,245 69 649,941 07

† On loans other than small loans.

* For definition of "Small Loans" see page 4.

Give details of any liability not shown as direct debts in the above schedule of liabilities:—

(a) Debentures or other security of other corporations guaranteed.....	\$.....
(b) Promissory notes or other instruments endorsed.....	
(c)	
(d)	

REVENUE ACCOUNT

INCOME

	*Small Loans	Business other than small loans
	\$ crs.	\$ cts.
1. Income earned on:—		
(a) *Small loans.....	8,208 57	
(b) Loans over \$500.....		168,127 77
(c) Conditional sale contracts and other contracts.....		
2. Recovery on bad or doubtful accounts previously written off.....		4,227 00
3. Other revenue for the year:—		
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		
4. Total income	8,208 57	172,354 77

N.B.—A brief description of the principles on which the division indicated on this and the following two pages, between Small Loans and business other than small loans, has been made, should accompany the statement.

		*Small loans	Business other than small loans
		\$ cts.	\$ ct.
Miscellaneous expenditure—Item 4 (n) on page 7.			
(a) Collection and repossession costs.....			
(b) Charitable donations.....	\$1,620 00	81 00	1,539 00
(c) Insurance.....			
(d) General and Office.....	758 13	37 90	720 23
(e) Unemployment Ins.....	104 82	5 24	99 58
(f) Empl. Group Ins.....	284 04	14 20	269 84
(g) Auto.....	1,653 12	82 65	1,570 47
(h)			
Totals.....	4,420 11	220 99	4,199 12

* For definition of "Small Loans" see page 4.

REVENUE ACCOUNT EXPENDITURE

		*Small loans	Business other than small loans
		\$ cts.	\$ cts.
1. Interest on borrowed money.....		701 26	13,323 90
2. Amount by which ledger values of assets were written down:—			
(a) *Small loans.....	1,555 60	1,555 60	
(b) Loans over \$500.....	4,005 59		4,005 59
(c) Conditional sale contracts and other contracts.....			
3. **Taxes, licences and fees:—			
(a) Dominion.....			
(b) Provincial.....			
(c) Municipal Business Tax.....	124 49	6 22	118 27
4. Other expenses:—			
(a) Advertising.....	9,756 73	487 84	9,268 89
(b) Auditors' fees.....	800 00	40 00	760 00
(c) Credit investigations.....			
(d) Directors' fees.....	2,250 00	112 50	2,137 50
(e) Furniture and fixtures.....	330 89	16 54	314 35
(f) Legal fees.....	2,000 00	100 00	1,900 00
(g) Postage and express.....	230 42	11 52	218 90
(h) Printing and stationery.....	313 87	15 69	298 18
(i) Search and registration of collateral.....	1,793 78	89 69	1,704 09
(j) Rents.....	2,160 00	108 00	2,052 00
†(k) Salaries.....	68,740 18	3,437 01	65,303 17
(l) Telephone and telegraph.....	1,133 12	56 65	1,076 47
(m) Travelling expenses.....	1,546 48	77 33	1,469 15
(n) Miscellaneous.....	4,420 11	220 99	4,199 12
(Give details on page 6)			
5. Total expenditure.....		7,036 84	108,149 58
6. Gross profit transferred to Profit and Loss Account.....		1,171 73	64,205 91
Totals.....		8,208 57	172,354 77

*For definition of "Small Loans" see page 4.

**Taxes incurred under Income Tax Act and Provincial Corporation Income Tax Acts are not to be included in this item—see page 8, item 9.

†Care should be taken to indicate here only amounts paid for services rendered and not withdrawals of profits from business. Such withdrawals should be shown opposite Item 7, page 8.

MISCELLANEOUS

1. Is any business other than *small loans business transacted.....Yes.....
Loans over \$500.00
If "yes", state the nature of such business and its interrelationship with the small loans business.....
2. State the monthly rate used in calculating the cost of *small loans.....two.....%
3. State to two places of decimals the average monthly rate earned on small loans determined by the following formula:—
Total "cost of loan" on small loans (Item 1 (a), page 6)
_____ = 1.97%
12/13ths of total end of month balances (Dec. 31+Jan. 31+Feb 28+etc. to+Dec. 31)
4. If an annual licence or certificate of registration is required by any province in which the lender is operating, was it issued?.....yes.....If "no", give reasons.
(Yes or no)
5. If a loan is unpaid at maturity date, state the rate that is charged thereafter on the outstanding balances.....1%.....
6. State arrangements in effect in your office for placing insurance, if any, on the chattels securing loans. either borrower places ins. or we place it with an agent, who collects same or we collect on his behalf.
7. Have any charges or expenses other than the cost of loan or interest as permitted by sections 3 and 6 of the Small Loans Act been charged directly or indirectly against the borrowers in the event of default or otherwise?.....Yes.....
(Yes or no)
If "yes" give full details of these charges in the schedule annexed. If more space is required, a separate sheet should be used and attached hereto.

[illegible]

* For definition of "Small Loans" see page 4.

8. Have any *small loans borrowers' accounts been transferred or assigned to other agencies for collection? No.....If "yes", give complete information using a separate schedule if necessary
(Yes or no)
.....
9. Are the lender's *small loans insured under a life insurance plan? No.....If "yes", describe the plan:
(Yes or no)
.....
.....
10. Were any wage garnishee actions instituted against *small loans borrowers, co-signers and endorsers during the year?.....No. of accounts.....Balances of accounts \$.....
11. Has any collateral security to *small loans accounts been sold during the year for a sum in excess of the borrower's account? No If "yes", what disposal has been made of excess proceeds. (give details)
(Yes or no)

ANALYSES OF RESERVES FOR BAD DEBTS AND CONTINGENCIES

(See items 3, 8 and foot-note † on page 8)

	*Small loans	Loan advances in excess of \$500	Advances on conditional sale agreements and other contracts	Contingency reserve
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
1. Provision during the year.....	Nil	Nil		
2. Recoveries during the year.....	Nil	4,227 00		
3. TOTALS.....		4,227 00		
4. Reduction in provision of previous year.....	100 00	1,900 00		
5. Written off.....	1,555 60	4,005 59		
6. TOTALS.....	1,655 60	5,905 59		
7. Increase (or decrease) during the year (3-6) Res. added to small loans taken from large loans.....	-1,655 60 2,000 00	-1,678 59 -2,000 00		
8. Add balances of reserves at beginning of year.....	564 03	9,435 97		
9. Balances of reserves at end of year.....	908 43	5,757 38		

* For definition of "Small Loans" see page 4.

EXHIBIT 1.—MOVEMENT OF *SMALL LOANS

	Number of accounts	Amount	Averages
		\$	\$
(A) Total loans outstanding at beginning of year.....	209	40,147	192
(B) Add:—			
(1) Loans made during the year:—			
(a) Loans less than \$50.....	1	60	60
(b) Loans of \$50 to \$99.....	44	5,476	124
(c) Loans of \$100 to \$199.....	63	14,020	223
(d) Loans of \$200 to \$299.....	52	16,946	326
(e) Loans of \$300 to \$399.....	76	35,024	461
(f) Loans of \$400 to \$500.....			
Totals B(1).....	236	71,526	303
(2) Loans purchased during the year.....			
Totals B(1) + B(2).....			xxxxxxxxxx
Totals A + B(1) + B(2).....	445	111,673	xxxxxxxxxx
(C) Deduct:—			
(1) Loans sold during the year.....	10	1,555	155
(2) Loans written off during the year.....	288	81,745	xxxxxxxxxx
(3) Loans repaid and payments on account.....			
Totals.....	298	83,300	xxxxxxxxxx
(D) Total loans outstanding at end of year			
(A + B - C):—			
(a) Original loan less than \$50.....	1	60	60
(b) Original loan \$50 to \$99.....	29	2,294	79
(c) Original loan \$100 to \$199.....	40	5,615	140
(d) Original loan \$200 to \$299.....	33	7,836	237
(e) Original loan \$300 to \$399.....	44	12,567	285
(f) Original loan \$400 to \$500.....			
Totals.....	147	28,373	193

* For definition of "Small Loans" see page 4.

NOTE:—Amounts should be shown to the nearest dollar.

EXHIBIT 2.—DELINQUENT *SMALL LOANS ACCOUNTS

	Number of accounts	†Amount of unpaid principal balance
		\$
With instalments or portions thereof in arrears:—		
(a) Under one month.....	28	5,045
(b) One to two months.....	2	633
(c) Two to three months.....	2	205
(d) Three to four months.....		
(e) Four to six months.....		
(f) Over six months.....		
Totals.....	32	5,883

* For definition of "Small Loans" see page 4.

† The total unpaid balance of principal shown by the accounts for each lettered item is required by this column, not the total of the instalments in arrears.

EXHIBIT 3.—ANALYSIS OF SMALL LOANS MADE DURING THE YEAR*

	Number of accounts	Amount	Average
		\$	\$
(A) ††According to type of security:—			
(1) Chattel mortgages.....	232	71,066	306
(2) Endorsed notes.....	1	100	100
(3) Wage assignments.....	1	200	200
(4) Other security.....	2	160	80
(5) Sale with right of redemption and sale with conditional re-sale.....			
(6) Unsecured.....			
Totals.....	236	71,526	303

	Number accounts	Amount	Average	Loan balances repaid by current loans
		\$	\$	\$
(B) According to borrower:—				
(1) New.....	85	25,258	297	x x x x x x x
(2) Repeat.....	75	23,199	309	x x x x x x x
(3) Current.....	76	23,069	303	12,881
Totals.....	236	71,526	303	x x x x x x x

(1) By "new" is meant persons not previously borrowers from this lender.
(2) By "repeat" is meant persons who had fully discharged all earlier loans from this lender.
(3) By "current" is meant persons with earlier loans from this lender still undischarged.
†† **Classified according to the primary security.**
NOTE:—Amounts should be shown to the nearest dollar.

EXHIBIT 4.—POSSESSIONS AND SALE OF CHATTELS UNDER *SMALL LOANS CONTRACTS

	Number of accounts	Amount due
		\$
1. Chattels in possession at close of previous year.....	Nil	
2. Additional possessions of chattels, made in the current year and arising out of business originating in:		
(a) Previous years.....	Nil	
(b) The current year.....	Nil	
3. Totals.....	Nil	
4. Partial payments on account.....	x x x x	
5. Chattels sold.....		†
6. Restorations of chattels under agreements with borrowers.....		
7. Chattels in possession at close of year.....	Nil	
8. Totals.....	Nil	

† Account value should be shown.

EXHIBIT 5.—SUITS FOR RECOVERY UNDER *SMALL LOANS CONTRACTS
(DISPOSITION OF LEGAL ACTION)

	Number of accounts	Amount due
		\$
1. Suits pending at close of previous year.....	Nil	
2. Additional charges on above suits in current year.....	x x x x	
3. Suits instituted or reinstated during the current year.....	Nil	
4. Totals.....	Nil	
5. Partial payments on account.....	x x x x	
6. Judgments secured.....		
7. Suits withdrawn or suspended.....		
8. Suits pending at close of year.....	Nil	
9. Totals.....	Nil	

* For definition of "Small Loans" see page 4.

ATTESTATION

AFFIDAVIT VERIFYING STATEMENT

PROVINCE OF ONTARIO
COUNTY OF YORK

CITY OF TORONTO

ALEX G. CLIMANS, President and JAMES CLIMANS, Secretary of the Merchants Finance Limited being duly sworn depose and say, and each for himself says, that they are the above described officers of the said company and that the foregoing statement and the separate schedules therein referred to and hereunto attached are made up from the books of the company and that to the best of our knowledge and belief they are correct and show truly and clearly the financial position of the company and the condition of the company's affairs on the thirty-first day of December, 1955.

ALEX G. CLIMANS,
*President**

JAMES CLIMANS,
*Secretary**

**Subscribe and sworn to before
me this.....
day of January, 1956 }

H. M. SHERMAN,
(State whether a Commissioner, Notary Public, etc.)

***If the lender is an individual or a partnership, the designation of the persons executing the statement should be appropriately varied.**

**** This affidavit is to be sworn to before some person duly authorized to administer oaths in legal proceedings for the county or district where the affidavit is subscribed and sworn to.**

Canada Banking and Commerce
Standing Committee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

BILL 51

An Act to amend the Small Loans Act

(including statement by Mr. K. R. MacGregor at Appendix "A")

TUESDAY, JULY 17, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. Hunter, Esq.,
and Messrs.

Ashbourne	Hanna	Richardson
Balcom	Henderson	Robichaud
Bell	Hollingworth	Rouleau
Benidickson	Huffman	St. Laurent (<i>Temis-</i>
Blackmore	Knight	<i>couata</i>)
Cameron (<i>Nanaimo</i>)	Low	Stewart (<i>Winnipeg</i>
Carrick	MacEachen	<i>North</i>)
Crestohl	Macnaughton	Thatcher
Deslieries	Matheson	Tucker
Enfield	Michener	Valois
Eudes	Monteith	Viau
Fairey	Nickle	Vincent
Fleming	Pallett	Weaver
Follwell	Philpott	White (<i>Hastings-</i>
Fraser (<i>St. John's East</i>)	Power (<i>Quebec South</i>)	<i>Frontenac</i>)
Fulton	Quelch	White (<i>Waterloo South</i>)
Gour (<i>Russell</i>)	Rea	
Hamilton (<i>York West</i>)	Regier	

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, July 17, 1956.

Ordered,—That the name of Mr. Knight be substituted for that of Mr. Argue on the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, July 17, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Ashbourne, Balcom, Cameron (*Nanaimo*), Eudes, Fairey, Follwell, Fulton, Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Knight, Michener, Monteith, Philpott, Regier, St. Laurent (*Temiscouata*), Thatcher, Viau and White (*Hastings-Frontenac*).

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; Mr. F. P. Varcoe, C.M.G., Q.C., Deputy Minister of Justice; Mr. E. R. Olson, Department of Justice; and representatives of certain Small Loans Companies and interested organizations.

On motion of Mr. Viau, seconded by Mr. St. Laurent (*Temiscouata*),

Resolved,—That Mr. Henderson be substituted for Mr. Fraser (*St. John's East*) and Mr. Deslieries, for Mr. Valois on the Subcommittee on Agenda and Procedure.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor was again called; he continued reading his statement on the Small Loans Act and answered questions thereon.

It was moved by Mr. Michener, seconded by Mr. Follwell,

That the Committee now hear the remainder of Mr. MacGregor's statement and that questions thereon be deferred until its completion.

Following debate, the motion was unanimously resolved in the affirmative: Yeas, 14; Nays, 0.

Mr. MacGregor completed the presentation of his statement and was then further questioned.

Mr. MacGregor being still before the Committee, at 5.30 p.m., it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m., the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieries, Eudes, Fairey, Follwell, Fulton, Gour (*Russell*), Hamilton (*York West*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Knight, Michener, Monteith, Philpott, Power (*Quebec South*), Quelch, Regier, St. Laurent (*Temiscouata*), Thatcher, Viau, Weaver and White (*Hastings-Frontenac*).

In attendance: The same as at the afternoon sitting.

The questioning of Mr. MacGregor on his statement was continued.

(Note: The statement of Mr. MacGregor in its entirety is reproduced at appendix "A" to this day's Minutes of Proceedings and Evidence. The related tables were printed as Appendices "A" to "I" to Issue No. 13 of the Committee's Minutes of Proceedings and Evidence dated June 28, 1956.)

At 10.05 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. on Thursday, July 19, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 17, 1956
3.30 p.m.

The CHAIRMAN: We have a quorum. I believe you have a motion, Mr. Viau.

Mr. VIAU: I move, seconded by Mr. St. Laurent, that Mr. Henderson be substituted for Mr. Fraser (*St. John's East*), and Mr. Deslieries for Mr. Valois on the subcommittee on agenda and procedure.

Motion agreed to.

The CHAIRMAN: I see in the day's motions that Mr. Knight has been substituted for Mr. Argue as a member of this committee. If you are all ready we will go on with the consideration of Mr. MacGregor's statement.

Mr. K. R. MacGregor, Superintendent of Insurance, called.

The WITNESS: A graded formula of this kind assumes that the layer of the loan carrying the lowest rate is repaid first. Consequently, the average rate earned on any loan is lowest in the first month and steadily increases from month to month until the full 2 per cent is earned during the later months. For the specimen loans that I have mentioned, the average rate in the first month and the equivalent flat rate throughout the entire period would be as follows:

Amount of loan	Average rate in first month	Rate toward end of period	Equivalent flat rate throughout entire period
\$	per cent	per cent	per cent
300	2.00	2.00	2.00
500	1.60	2.00	1.81
1,000	1.30	2.00	1.48
1,500	1.03	2.00	1.27

By Mr. Follwell:

Q. How would you go about setting your rate? How did you figure out your table here? Is it computed on the basis of a loan made over so many months?—A. That is correct. The first column of the table shows the amount of the loan—\$300, \$500, \$1,000 and \$1,500. The second column shows the average rate in the first month. For example, a loan of \$300 obviously carries the 2 per cent monthly rate throughout; the loan of \$500 carries 2 per cent on the first \$300, that is, a total of \$6 plus one per cent on the additional \$200 over \$300, that is, \$2 additional which, added to the \$6 gives \$8 and which divided by 5 gives 1.60 as the average rate in the first month.

Q. That is what I wanted to know.—A. Of course, as the loan is repaid the top layer disappears and at the end of the period the lower layer continues to carry 2 per cent per month. That is why in the third column I state that the rate toward the end of the period is 2 per cent in every case.

By Mr. Monteith:

Q. Is it not the case that if a loan of \$1000 is made, for argument's sake the 2 per cent is on the first \$300 and the total goes on the balance of \$700—

the whole thing is lumped together, principal and interest, and you pay off in equal monthly instalments? Is that the way it works?—A. No, sir. Under the act as it is worded now interest accrues only on the outstanding principal—the balance of the loan—from month to month and the payment made by the borrower, which includes principal and interest, is applied first to the payment in full of the interest for that month, and secondly in repayment of a small part of the principal.

Q. Is it not done on the basis of the payment of equal monthly amounts?—A. Yes, the instalments are usually of equal amount combining both principal and interest.

Q. Including principal and interest?—A. Yes, that is correct. The column on the extreme right shows, as the heading indicates, the equivalent flat rate throughout the entire period of the loan. In other words, if the monthly rates shown in the right hand column were charged throughout the duration of the loan the total monthly instalment required to be paid by the borrower would be the same as under the proposed formula.

By Mr. Michener:

Q. What is the term of the loan used in making this formula?—A. Twelve months, but it would make very little difference if it were 24 months or 36 months. It would not make a difference of more than one in the second decimal place, I think, in the monthly rate.

The fact that the rate earned is less in the early months than in later months tends to depress earnings in times of rapid expansion, like the present, when more loans are in their early months; but this only shifts the incidence of earnings and does not alter the fact that the equivalent flat rates will be earned if loans run to maturity. It is only if loans are prepaid or refinanced before maturity that the full equivalent rate would not be earned. If anything, this may be regarded as an advantage of this kind of formula from the viewpoint of good practice since it may tend to discourage premature refinancing.

Q. Could Mr. MacGregor give us any indication of the percentage of loans which are repaid before maturity? I take it that has a bearing on the earnings.—A. In the small loans field, that is in the field of loans of \$500 or less, by number about 58 per cent of the loans made in 1954 were to current borrowers, so that their loans were refinanced in every case before maturity. In 1955 it was 57 per cent.

By Mr. Follwell:

Q. That means a borrower negotiates another loan before he finishes paying his first?—A. Yes.

By Mr. Monteith:

Q. That means that in over half of these cases there would be, in effect, a prepayment of the loan at the time when the second loan was negotiated?—A. Those borrowers have not extinguished their debt before obtaining a larger loan.

Q. Yes, the borrower might have negotiated a loan and made repayments on it for two or three months and then, meeting with an additional need for money, negotiated a second loan. I take it that would be a new loan and that it would extinguish the old one, and that would be a prepayment. Taking your figure of 58 per cent, about 58 per cent at least of the small loans are prepaid before maturity.—A. That is correct.

Q. That would, I suppose, have quite a material effect on the earnings of the sliding scale which is proposed.—A. It would tend to depress them

somewhat, but if a loan is refinanced at half time, that is at about the mid-point of its normal period, I would say that the average monthly rate would be reduced by perhaps .05 of one per cent per month.

Q. It is only in the last period in the case of one of these composite loans when the \$300 item is unpaid that the full 2 per cent rate is applicable?—A. That is correct. Perhaps I might correct the estimate of .05 of one per cent that I gave. This would be about right for a \$500 loan, but for a \$1000 loan or a \$1500 loan the reduction in the average monthly rate would perhaps be nearer to .1 of one per cent per month.

Q. I suppose it is accrued over a period. If a man were to borrow \$1500 the rate he would be paying in the first month according to the table on page 36 of your statement would be 1.03 per cent, but if he were to refinance in the second month the effective interest rate on that loan would be 1.03 per cent.—A. That would be correct; the average rate would be depressed.

By Mr. Follwell:

Q. Did you give that figure in respect of 1954 or 1955?—A. I think I gave both. The percentage in 1954 was 58.3 and in 1955 it was 57.4. That is by number of accounts, not by amount of loan.

Q. That would show that there was a slightly downward trend, but not very much?—A. I would doubt that it is of any significance.

Q. I think you said that was the number of accounts, not the amount.—A. That is correct.

Q. There might be more money borrowed, but a few less borrowers?—A. By amounts the percentages would be higher.

Mr. FOLLWELL: Prosperous times! I guess people can borrow more money.

The WITNESS: It will probably be said that a rate of $\frac{1}{2}$ of 1 per cent on the part of a loan between \$1,000 and \$1,500 is unrealistic because it is so close to the rate paid on borrowed money in many cases. It should be remembered, however, that this part is repaid first, is outstanding but a very short time and is made at little or no extra cost. Moreover, the rate of $\frac{1}{2}$ of 1 per cent is merely an element in a formula for producing an appropriate composite rate for loans at various levels. A composite rate of 1.27 per cent per month for a \$1,500 loan is equivalent to an effective annual rate of 16.4 per cent and a composite rate of 1.48 per cent per month for a \$1,000 loan is equivalent to an effective annual rate of 19.3 per cent. It will probably also be said that lenders will refrain from making loans between \$1,000 and \$1,500 but this has not been the experience in states like Connecticut, New York and New Jersey where the rate of $\frac{1}{2}$ of 1 per cent applies on the part of any loan exceeding \$300. The trend of loans in those states has in fact been strongly into the area carrying this rate.

By Mr. Michener:

Q. There are one or two questions which occur to me with regard to that paragraph. It appears that in Connecticut, New York and New Jersey their rates are the same for the small loans part of the composite loans, but my recollection is that their rates are higher during the first part of the small loan, varying from $2\frac{1}{2}$ per cent to $3\frac{1}{2}$ per cent on the first \$100 or \$200. Perhaps you could tell us the rates in those states if they are used as illustrations.—A. In Connecticut the small loans law provides a rate of 3 per cent per month on the first \$100, 2 per cent on the next \$200, that is, up to \$300, and $\frac{1}{2}$ of 1 per cent on the element above \$300.

The CHAIRMAN: Excuse me, Mr. MacGregor, but is that all the way up after that, or only to \$500?

The WITNESS: Only to \$500. The maximum loan allowed under the Connecticut law is \$500.

The CHAIRMAN: So they are are not in comparable fields?

The WITNESS: Not exactly. In New York the law permits a maximum rate of $2\frac{1}{2}$ per cent on the first \$100, 2 per cent on the next \$200 and $\frac{1}{2}$ of 1 per cent on the next \$200, that is, on the element above \$300.

By Mr. Michener:

Q. Five hundred dollars is the maximum there, too?—A. That is correct.

Q. What was the effective rate for a \$500 loan in New York state?—A. It is 1.88 per cent.

Q. And in New Jersey?—A. In New Jersey the law permits a maximum charge of $2\frac{1}{2}$ per cent on the first \$300 of any loan plus $\frac{1}{2}$ of 1 per cent on the element above \$300.

Q. The comparison you intend there, I take it, then, is between lending in those states in the range of \$200, \$300, and \$500 which is the maximum, with what we would have here if this new rate were adopted, running in our case up to \$1500.—A. I have in mind the field of loans, in these states between \$300 and \$500 where the rate of $\frac{1}{2}$ of 1 per cent per month applies.

Q. Yes, you are not talking about loans above the \$500 limit which are not regulated?—A. No I am not.

Q. It is in effect I suppose the comparison between an effective rate of 1.88 per cent and the rates you show in the table on page 36 which would be very substantially less in this province in the higher brackets of loan.—A. I did not make the statement referred to for that particular purpose. I made it in an endeavour to show that where part of a loan carries a rate of $\frac{1}{2}$ of 1 per cent per month it has not seemingly had the effect of reducing the volume of loans made in that area. The evidence seems to be in the other direction.

Q. I suppose that one explanation might be that the effective rate in that area up to \$500 is still much larger than it would be—in the case of the table you give here the effective rate of 1.88 per cent is a little higher than some of our loan companies are charging now in the field that would be covered by the new legislation.—A. Under the proposed scale of charges in that field it would be 1.81 per cent, a little less than 1.88 per cent.

Q. What I am doing is testing your theory that a composite loan with different rates of interest is the same as lending money at an average rate, and I am inclined to differ from you on that point. I think no matter how you average it, if a lender lends \$500 at 2 per cent and another \$500 at 1 per cent, the fact remains that even though the average rate is something in between he is risking his second \$500 for 1 per cent, and that is something which a business man will have in mind in deciding whether to make that additional loan. And I am just wondering whether you are not talking wishfully when you suggest that the loan would be made as freely as a composite loan, because the rate still sounds like a substantial rate.—A. I am inclined personally to agree with you in one respect, namely that one should have regard for the composite rate; but in making the statement referred to I was simply endeavouring to anticipate the argument that might be advanced against any element of a loan carrying a very low rate, as, for example, $\frac{1}{2}$ of 1 per cent per month, the argument presumably being that a lender would not want to lend any money at that rate. As against that possible argument I had in mind the situation in these three named states where the element of the loan between \$300 and \$500 does carry that rate and the trend of borrowing seems to have been toward that area.

Q. I see the argument, but it strikes me that the parallel is not very complete and I think the committee must face the prospect that the lenders

may cease to operate in the less profitable fields, and we will have to decide whether it is a good thing or not to take steps which would curtail, perhaps substantially, the amount of money available in the area not now covered by the act.—A. I admit that it is very difficult to predict what the reaction of lenders might be.

By Mr. Hollingworth:

Q. In other words in Connecticut, New York and New Jersey the lending companies are lending money at $\frac{1}{2}$ of 1 per cent per month and are making a good profit on loans between \$300 and \$500.—A. I would not like to express an opinion on how good a profit they are making on that basis.

Q. Anyway, these are very interesting and significant statistics.—A. The average rate of profit in New York state has been declining in recent years and the explanation according to their official report is the increasing trend toward larger loans in the area that carries the rate of $\frac{1}{2}$ of 1 per cent.

Q. Would you be in a position to know what loan companies in those three states charge in the area above \$500, or \$1,500?—A. My understanding, Mr. Hollingworth, is that they are not permitted to lend above the maximum of \$500 in New York.

Q. What about Connecticut?—A. I understand the situation is the same there. I am not sure about New Jersey but I think it is the same in that state too.

Q. What arrangement is there for making loans above \$500? Is there some arrangement similar to our own unlicensed field?—A. I believe that the banks and credit unions are making most of the loans in the larger loan area in the states that have been mentioned, but in some of the other states there are other laws in existence under which small loan licensees may operate.

Q. I think that in Ontario and in Canada as a whole we often look to see what goes on in important states such as New York, and that is why I asked that question; possibly we could draw upon their experience in this regard.—A. My understanding is that the demand for loans above \$500 is supplied by other lenders in those states.

By Mr. Michener:

Q. There is another point here, Mr. Chairman, which I think we might consider further, too. Mr. MacGregor says that the extra loans in the increased field can be made at little or no extra cost. If A is lending B \$500 he makes certain inquiries to see whether B can pay that \$500 over the term of the loan, whatever it is. If A is lending B \$1,500 I think some very different consideration might enter into the inquiry, and that it might involve quite a different processing before the lender would be satisfied to advance that amount of money to B, and that seems to be an element of cost, in fact it is a large element of cost—the salaries of the managers, or whoever has to interview and deal with the applicants would increase the cost of doing business. Would there not be a great difference in cost in connection with the two kinds of loan?—A. If there were a substantial difference in the amount of the loan I think there would be additional cost in investigating the larger case; but under the formula of course the rate of $\frac{1}{2}$ of 1 per cent applies only to the element between \$1,000 and \$1,500 and I would doubt that there is much difference in the investigation made by the lender for a loan of \$1,001 as against \$1,499 or \$1,500.

Q. As I understand it the proposed increase in the controlled area is from \$500 to \$1,500. You are comparing the cost of lending \$500 with the cost of lending anything up to \$1,500—A. I was just dealing with the area to which the rate of $\frac{1}{2}$ of 1 per cent applies and that area is only between \$1,000 and \$1,500.

Q. The same would apply to the area between \$500 and \$1,000?—A. I was not speaking of that area.

Q. The element of cost would enter into it substantially in my opinion—the bigger the loan the greater the cost of the inquiry.—A. If there is a substantial difference in size I would agree but where the difference is only a very few hundred dollars—\$300 or \$500—I doubt if the difference is material.

By Mr. Follwell:

Q. You indicated that the banks in the various states you mentioned are taking practically the whole load for sums over \$300 or \$500. Do the banks in the United States maintain a department somewhat similar to that of the small loans association for the purpose of investigating applications? Will they assume the risks that the small loan companies will take? If they can do it in the United States, or in several of the states of the United States, would you hazard an opinion that the banks could do it here in Canada?—A. I would prefer to step around that rather controversial question, Mr. Follwell. I am not intimately familiar with the internal organization of the banks in New York state which are making personal loans, but my understanding is that the banks in that state make about 80 per cent of the total personal loans made in the state.

Q. Are they controlled, as to the interest rate, by some machinery such as the Bank Act in Canada?—A. They are controlled by a banking law but I do not believe it is the same as the law in Canada.

Q. That is to say, the interest rate they are prepared to charge could be higher in the United States than in Canada?—A. It could be, but I think it is lower.

Q. Oh, it is?—A. In this particular type of loan.

Mr. CAMERON (Nanaimo): I think if you will look at Mr. MacKinnon's evidence two years ago you will find that evidence with regard to the practice in the United States was given.

Mr. FOLLWELL: Apparently the banks are taking over this job of making loans at regular bank interest—

The WITNESS: In making the statement I did, Mr. Follwell, namely that the rate charged by the banks in New York state is, I think, lower than the maximum rate stipulated under the Bank Act here, I had in mind reading in the Journal of Commerce a few months ago, which as you know is a New York financial paper, that four or five of the large banks there that were doing most of that kind of business were proposing to raise their discount rate from 3·83, I think, to 4·25 per cent. The effective rate of interest would, of course, be about double that rate because that is a discount rate applied to the face amount of the loan at the time it is made. If the rate of discount charged is of the order of 4 per cent that is why I said it is lower than the 6 per cent maximum stipulated in the Bank Act here, at least as interpreted by one bank.

By Mr. Follwell:

Q. Well, possibly the banks in the United States are taking on the same type of loans as we understood that the Bank of Commerce were to take on, and they are doing so on the same basis except that the rate of interest charged is slightly lower.—A. I would suppose that the banks in New York state—and I am really guessing here—would exercise themselves more in the field above \$500 than in the smaller field occupied by the small loans companies.

Q. That is what I was trying to get at—the type of loan between \$500 and \$1,500 which we are hoping to legislate for in this country. The small loan companies in the United States are apparently not in that field at all. That is—as Mr. Hollingworth points out to me—the situation in the three states which

have been referred to. The small loans companies are not in that at all.—A. I think that is so but they are in it in some of the other states in varying degrees.

Q. But you are indicating to the committee that in most states the small loans companies are in business to deal with sums between \$300 and \$500—in some places it might be more—but that the banks are taking up that load between \$500 and \$1,500. Here in Canada we have always been hopeful that the banks would take up a little bit more extended loan and I think that is why we in the banking and commerce committee a couple of years ago gave them the right and privilege to take chattel mortgages. Apparently, however, the banks have not been inclined to do that; they seem to have decided that they do not want to get into the chattel mortgage business, leaving the field open to the small loan companies or to the money lenders. Am I right in those observations?—A. The latter is substantially the position at the present time.

Some hon. MEMBER: The banks are not taking the load they should take, and I think this committee should know about it.

By Mr. Monteith:

Q. Can I refer for a moment to a question which Mr. Michener raised a moment ago with regard to the cost of making a loan in the upper bracket? Let us suppose for argument's sake, say, a loan had been made for \$700. That would be in the bracket up to \$1,000 and bear $\frac{1}{2}$ of 1 per cent interest. Suppose that started to be paid off and then someone came along and apparently quite a percentage of loans, over 50 per cent, are for current borrowers, so if they increased their loan again he makes a loan for \$1,500 there would have to be a complete recommencement of his position, would there not, before they could lend the \$1,500?—A. There might be.

Q. The cost would appear to me to be possibly quite somewhat larger than in the original case where the man was paying 2 per cent.—A. I think there might be an additional cost or there might not. As against the desire of the borrower to obtain a larger loan the lender at least has some knowledge of his record apart from the investigation made at the outset.

Q. They would have a knowledge of his record but they would have to check whether he had the same assets, would they not?—A. I think that is so.

By Mr. Michener:

Q. I would think, Mr. MacGregor, that if a man negotiated a small loan and came back shortly and wanted to increase the amount, that would be an immediate ground for suspicion—that instead of paying off the debt he had contracted to pay he wanted to borrow more. There might be another explanation but there would be an element of suspicion, I would think. If I were in that operator's position, trying to decide whether or there was a good reason for the loan—the mere fact that he wished to borrow more instead of paying—A. Yes, I would think so, but apparently they can make their cases pretty well, because it does seem to happen frequently.

Q. To say that there is no extra cost is certainly in my opinion an overstatement, and to say that there is little extra cost would seem to be an exaggeration of the condition that would obtain.—A. Well, I was thinking of two cases where a lender might be considering a loan of \$1,000 as against a somewhat larger loan varying between \$1,000 and \$1,500. I can only express my personal opinion that I should be surprised if a lender makes much distinction in his investigation in that particular range. He may, but I should think only in special circumstances.

Q. Remember, we are trying to make out a case here for the additional \$500 at $\frac{1}{2}$ of 1 per cent. At the present time the only regulated loan is up to \$500—A. That is true, but that is not the point I am endeavouring to make.

Q. You have to consider both stages and not simply the smaller. It is not simply a question of adding a few dollars to a loan but is a question of adding three times the amount which is now regulated.—A. Not for loans between \$1,000 and \$1,500.

By Mr. Follwell:

Q. Mr. Chairman, Mr. MacGregor says in his statement. "It will probably be said that a rate of $\frac{1}{2}$ of 1 per cent on the part of a loan between \$1,000 and \$1,500 is unrealistic because it is so close to the rate paid on borrowed money in many cases". Do you mean by that, in the rate here, as indicated on table 5 under the heading "Average annual rate paid on borrowed money", where it shows a rate for the different companies of 5.48, 4.46, 5.42, and then a total of 4.91 per cent, that in borrowing there the company are borrowing money which they reloan, and that they pay an average of 4.91 per cent and in turn loan it out at these higher amounts that would be at a fairly close rate to the rate at which they borrowed it?—A. 4.91 per cent is the average rate shown in the table for 1955; but what I really had in mind is that a lender may be paying more than that now, perhaps $5\frac{1}{2}$ per cent, on borrowed money; and $\frac{1}{2}$ of 1 per cent per month or roughly 6 per cent per annum is not much higher.

By the Chairman:

Q. Not on a diminishing balance, surely?—A. I do not understand your question, Mr. Chairman.

Q. Surely $\frac{1}{2}$ of 1 per cent per month would only be 6 per cent if the loan is not repaid.—A. The rate is $\frac{1}{2}$ of 1 per cent per month which is roughly equivalent to 6 per cent per annum.

Q. If the loan is not repaid; but on a diminishing balance surely it is less.—A. These rates always apply on the diminishing balance but the rate per annum is the same.

By Mr. Follwell:

Q. What I am trying to find out is if the lender would be in a position, if we are going to say, "we will permit you to loan up to \$1,500," to make \$1,500 loans if he has to pay 4.91 per cent or about 5 per cent for money and can only get back 6 per cent?—A. Would he have anything left for expenses?—A. That is the point. I do not think that the expenses connected with making that small additional loan amount to much. I admit that the difference between the rate paid on borrowed money and this rate of $\frac{1}{2}$ of 1 per cent per month may very well be quite small; but on the other hand I would doubt that if lenders are faced with an application for a loan of \$1,200 that they will decline to make it simply because that loan includes an element carrying a rate of $\frac{1}{2}$ of 1 per cent.

Q. If such were the case, I am wondering if what we are trying to do would be accomplished if a man who needs to borrow some money, on account of his risk cannot get it from a loan company other than from a financial house, and might then go to a finance company and say, "I want to get a loan for \$1,200", and they say, "we can only give you a loan for \$1,000 or \$999, but just cannot give you a loan beyond that". What we are trying to account for is a man who needs money and should be able to get it. I am wondering if we are going to limit it so that a man who needs the money will not be able to get the amount which he needs.—A. I would be surprised if they would turn it down unless the risk were poor.

Q. Then you think that the cost of a loan of \$900 would be probably comparable to the cost of a loan of \$1,200? Is that what you are saying?—A. Would you mind repeating that?

Q. You are suggesting that to make a loan it would cost about as much for the lender to make a \$900 loan as it would to make a \$1,200 loan, that is the cost of writing up the loan, supervising it, investigating the borrower, and so on?—A. No. I am not thinking of loans of \$900 because a rate of $\frac{1}{2}$ of 1 per cent does not apply to any element of a loan below \$1,000.

Q. If a man needs more money than \$1,000 and goes to a loan company and says, "I need \$1,200", then the lender can say, "Well, we understand that you need \$1,200 but we are prepared to loan you only up to \$1,000 because the terms on which we are allowed to operate on an amount over \$1,000 are not profitable to us and we lose money on it." Nobody is going to operate where they lose money.—A. A lender might prefer to make a loan of \$1,000 in that case, but if he thought that the applicant was a good risk and he wanted \$1,200, I would be surprised if the lender would refuse to make the loan in the amount of \$1,200 if the applicant wanted exactly that amount. If the lender refused, then I suppose that the applicant would probably go to another lender.

Mr. MICHENER: I see that the final five pages of the brief here deal with the effect of the proposed rate changes on the lenders and the borrowers. I wonder if it would be desirable if Mr. MacGregor read through the balance of the brief now and then we could question him on what occurs in those five final pages; it is all on one subject.

The CHAIRMAN: That is up to the members of the committee. If they wish to ask questions, they are permitted to do so.

Mr. MICHENER: I will make it as a motion that we do proceed in that way.

Mr. REGIER: Mr. Chairman, does this now mean that at the end of the brief we can ask questions on any part of the brief?

The CHAIRMAN: Naturally.

Mr. REGIER: Well, in that case I think that the motion defeats the very purpose for which it was ostensibly made. We had voted on that the other day and lost the vote; now we are right at the end of the brief and apparently it is going to be open to allow what, to my mind, will be a lot of nonsensical questions.

The CHAIRMAN: There was never a ruling that at the end of the brief no further questions could be asked. It was always assumed that we would get rid of the majority of the questions as we went along. However, that would not mean that there would be no questions at the end of the brief.

Mr. MICHENER: That would be a new application of closure.

Mr. CAMERON (*Nanaimo*): We have had the most invidious application of closure which I have seen so far.

Mr. MICHENER: I move, Mr. Follwell seconded, that we hear the remainder of Mr. MacGregor's statement and that questions thereon be deferred until its completion.

The CHAIRMAN: You have heard the motion. All those in favour?

I declare the motion carried.

The WITNESS: From the lenders' point of view, the most important question is, of course, the effect that the proposed rates would have on their income and profits. There is no doubt that the effect would be substantial. For loans up to \$500, being the present regulated area, I estimate that the income would be reduced by about 5 per cent. For loans between \$500 and \$1,500, being the proposed new area of regulation, the effect would vary, depending upon the pattern or distribution of loans by amount. The two largest small loans companies have only a very small proportion of loans over \$1,000 whereas many money-lenders do about as much business above \$1,500 as between \$500

and \$1,500. For loans made in amounts between \$500 and \$1,000, I estimate that income would be reduced by about 24 per cent and for loans made in amounts between \$1,000 and \$1,500 by about 38 per cent, in each case in relation to assumed charges of 2 per cent per month. For loans over \$1,500, which would continue unregulated, I think it would be unrealistic to assume any change in practice or to predict what changes, if any, may be made.

In the case of the largest small loans company, Household Finance Corporation of Canada, the present gross earnings of 12 per cent would be reduced to about 11 per cent and, after income tax at 47 per cent, to about 6.2 per cent. The unlicensed associated company, Household Finance Corporation Limited, would apparently have its gross rate reduced from the present level of 16 per cent or 17 per cent to approximately 11 per cent and, after tax, to slightly less than 6 per cent.

In the case of the second largest small loans company, Personal Finance Company of Canada, the present gross rate of 11.3 per cent would be reduced to about 7.5 per cent and, after tax, to slightly less than 4 per cent. This is probably the minimum level at which a large lender can be expected to operate but there is good reason to expect that this rate would improve once the expenses arising from the opening of so many new offices and the rapid increase in the volume of new business subside. Furthermore, one may reasonably expect that this company's rate of earnings will steadily increase and that before very long it will attain the same earnings level as the largest company.

The third small loans company, Community Finance Corporation, would apparently be hard hit because of its present high expense level and low profit level but if salaries and other expenses were reduced even to the level of the "all others" group of money-lenders, the earnings, after tax, would be over 4 per cent of average assets and the net profits after interest on borrowed money and taxes would be about 7.5 per cent of the company's own funds. This company operates in association with its parent, the Peoples Thrift and Investment Company, and some readjustment of its present organization, which includes a relatively large number of offices for the volume of loan business handled, would be necessary to show a satisfactory return. Community Finance gets most of its funds from Peoples Thrift and pays about 1 per cent more than it costs the latter to borrow; hence there is some indirect gain to the parent from these borrowing transactions.

The fourth small loans company, the Canadian Acceptance Company, also operates in association with its parent, the Canadian Acceptance Corporation Limited, but since the former is already charging only 1½ per cent per month on all loans over \$500, its operations would be affected only slightly.

The four large money-lenders, Commercial Credit Plan, Niagara Finance, Trans Canada Credit and Union Finance, each operate in association with parent or related acceptance companies and in my opinion could continue to earn a reasonable return, especially if account is taken of the indirect advantages to the parent of sharing expenses in various ways, including so-called "service", "management", "contract", and so forth, fees. Union Finance just began business in 1952 and its earnings are steadily improving. In the case of Trans Canada Credit, the licensed lender obtains funds from its parent and pays substantially more than it costs to raise the funds so that the parent enjoys some additional return in this way.

The licensees that would be most seriously affected are in the "all others" group and vary all the way from individuals to fast growing subsidiaries of U.S. parent companies. A great many of the licensees in this group also operate in association with sales finance or acceptance companies and in many other cases the lending business is not the only business carried on by the owners.

Taking this group as a whole, but excluding the recent licensees with negative earnings, and assuming no change in lending practices above \$1,500, it is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds. In some cases the return would be more and in some cases less. Many lenders may feel that this is an inadequate rate of profit to maintain their interest in staying in the field and some might withdraw. On the other hand, the mortgage loan companies supervised by the department earned only 7.0 per cent in 1954 on equity capital and reserves before making transfers to strengthen investment reserves and 5½ per cent after such transfers. The rates of return on net worth vary greatly in different lines of business and while the rates in most lines are higher, some are lower. The current return amongst merchandising companies and public utilities is in each case roughly comparable, being of the order of 7 per cent per annum. I should not want to minimize or gloss over the seriousness of forcing any lender out of business but at the same time I feel that the great majority of those who might withdraw have the ingenuity to put their funds to other profitable use.

I believe that lenders who now do 90 per cent or more of the personal loan business in Canada would continue to operate at a reasonable profit under the proposed rates and that adequate facilities would continue to be available to the borrowing public. If, on the other hand, it is felt that all lenders, or practically all, must be permitted to continue to operate profitably, then higher rates than those proposed would be necessary. The fundamental question is whether borrowers in Canada are to secure the best procurable rates or whether they are to pay more than is necessary in order to permit several small lenders doing only a small fraction of the business to continue much as heretofore.

In the determination of this question, I would suggest for consideration that the future of many small lenders may not be assured in any event merely by fixing maximum rates at a higher level than necessary for other lenders, since in those circumstances more and more lenders, large and small, will probably continue to be attracted to the field. Also, there can be no assurance that a predominantly Canadian-owned industry can be built up merely through higher rates because there is no evidence that such a policy would lead to a decrease in the proportion of business transacted by foreign-owned licensees or that the borrowing public would benefit if that were the result. Moreover, Canadian-owned licensees may at any time be sold to outside interests, as occurred when the first small loans company was sold in 1932, the largest money-lender in 1946 and another small but successful money-lender in 1955.

Another proposal in the bill is to include in the definition of "cost of loan" any premiums for life insurance or personal accident or sickness insurance arranged by the lender covering the indebtedness of borrowers. In requiring lenders to assume costs of this kind there is, of course, no intention to prohibit any such insurance arrangements from being made. Elsewhere, however, serious abuses have developed, involving excessive coverage, excessive premiums being paid by borrowers and excessive commission profits being made by lenders. It is true that insurance of this kind is of benefit to borrowers but it is also of benefit to lenders who are thereby relieved of pressing for payment in embarrassing circumstances and, in fact, guaranteed payment in full. The insurance may theoretically be arranged either on a compulsory or optional basis on the part of borrowers but the difference in practice is more theoretical than real. I believe that the only sure way to avoid the arrangement of insurance simply as a device to supplement the profits of lenders or

otherwise to afford better security at additional cost to borrowers is to require any such cost to be absorbed by the lender within the maximum rate fixed by the Act. There have been increasing signs recently of the desirability of the amendment proposed.

The other amendments contained in the bill are, in the main consequential upon the adoption of the principal amendments and may more readily be dealt with when the bill is under detailed consideration, clause by clause.

In conclusion, I should like to say that notwithstanding all that is said and heard about this very controversial business, we have had good cooperation from licensees as a whole and there can be no doubt that conditions in the regulated field of loans have greatly improved since the act was passed.

The CHAIRMAN: Gentlemen, if there are any questions let us have them in an orderly way.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, I was just wondering, before we proceed with the additional questioning of Mr. MacGregor, since we have Mr. Varcoe with us and the understanding was that he was to give us some advice on the legal aspects of the bill, whether it might be desirable to call Mr. Varcoe at this time to give us his evidence.

Mr. MICHENER: Mr. Chairman, while we have these last pages before us and they are fresh in our mind, it might be best to complete the questions now, if it does not inconvenience Mr. Varcoe.

The CHAIRMAN: I do not imagine that Mr. Varcoe will be inconvenienced either way.

Mr. F. P. VARCOE, C.M.G., Q.C., (*Deputy Minister of Justice*): Whatever is decided is all right with me.

The CHAIRMAN: Unless the committee has an overwhelming desire to hear Mr. Varcoe at this time, it would be normal to go on with the questioning of this witness.

By Mr. Michener:

Q. Mr. Chairman, may I ask some questions about the forecast of the results of the reduction in profits which Mr. MacGregor gives as percentages? Would it be possible for him to give us those in the form of dollars of reduced income?—A. Are you referring to any lender in particular?

Q. I was taking up your percentage reduction in earnings at the top of page 38, where you estimate that income would be reduced by 24 per cent in the loans between \$500 and \$1,000, and by 38 per cent in the next \$500 bracket.—A. I was speaking generally at that point and I had in mind a uniform distribution of loans between \$500 and \$1,000, and between \$1,000 and \$1,500. I believe that those estimated reductions are conservative in the sense that I do not think the percentages mentioned are under-estimated; they lean, if anything, on the other side.

Q. And you had in mind the two largest small loans companies?—A. No. I had in mind any lender. Assuming that the lender has a uniform distribution of loans and that they are not bulked at either end of the range, I estimated that the income would be reduced by those percentages; but it would be the same percentage regardless of the volume. I had in mind any lender.

Q. I am interested in information as to how you arrived at those figures because it seems to me they are very important. They attempt to express the effect of the reduced rates. Now, taking the first one, you estimate that for loans made in the amounts between \$500 and \$1,000 that income would be reduced by about 24 per cent. What kind of income is that? Is it net income?—A. No. The gross income collected from borrowers.

Q. How did you arrive at that figure?—A. I could show you more readily if I had you here beside my notes. However, I will try to outline the general

approach. Thinking of the average rates proposed in the bill, the effective monthly rate for a \$500 loan is 1.81 per cent, and for a \$1,000 loan it is 1.48 per cent. The average of those two is about 1.65 per cent per month. I could show you better how I arrived at the final percentage, but perhaps I can tell you in a rough way. On the assumption that 50 per cent of the loans are refinanced at half time, the average effective rate of 1.65 would be reduced to 1.60 per cent, indicating a reduction of 20 per cent, of the basic rate of 2% per month. Then, I took into account the initial rates in the first month of any loan. For a \$500 loan the initial average rate is 1.60; for a \$1,000 loan the initial rate is 1.30 per cent. The average would be 1.45 per cent, indicating an average reduction on that basis of $27\frac{1}{2}$ per cent. Then if one averages the two of the percentages, 20 per cent and $27\frac{1}{2}$ per cent, he will get about 24 per cent.

Q. Yes. Well, that is of course largely hypothetical. It seems to me that to determine what difference there would be in the earnings one would have to know what amount of loan is outstanding at any given time in each category of loan. Has your office information of that kind from the companies?—A. No, we have not complete information of that kind. I am quite well aware of that method of estimating income on the basis of stratified balances, so to speak, but I believe that the approach I have adopted if anything over-estimates the reduction. It amounts, substantially, to assuming that of any lenders' business on its books, half of it is in the first month of duration, a quarter of it is about one quarter along the path to the normal maturity date and a quarter is about one half along the way to the normal maturity date.

Q. Well I suppose we will hear evidence later from the companies as to the actual effect on the business on their books at a particular time which will be more indicative than a hypothetical approach. I question this because it seems to me that if you take a simple example of a loan company that has three loans totalling \$1,000 on its books—you might say there are three loans at \$333 and work out some conclusion from it whereas there might be two loans of \$100 and one of \$800 and the illustration would be very different, so one has to have the information, which I understand you to say your office does not have, to arrive at the real picture—A. I think the information you will get by the method you propose, however, has to be interpreted with equal care because it tends to depress the effective rate of earnings. In the illustrations you give, my method would throw the \$800 loan into its proper group.

Q. There is another point which seems to call for clarification. You suggest that the companies are expanding now and that their expenses are therefore greater than they will be in the future. That seems to me to assume that we have reached a static condition in Canada; and that is not the history of the last 10 years. Every active Canadian business has expanded and has been increasing its outlets and, I think, will continue to increase its outlets. To say we have now reached a time when this expansion will cease seems to me to be presupposing either a recession or a depression, which none of us is looking for.—A. I have no doubt at all that the business will continue to expand, but surely not at the rate at which it has expanded in the last 3 years.

Q. I suppose it is a matter of opinion how rapidly the expansion will continue. This country has been growing in the last 10 years at a rate which none of us would have expected, and I expect the small loans business will continue to grow in proportion. The next question I want to raise concerns the number of companies which will be affected by the change in rate and which might find it desirable to employ their funds elsewhere. I am looking at table 8 which sets out the principal small loans companies and money-lenders, and I note there that the largest one is Household Finance Corporation, the third on the page which had average assets as shown in the first column of \$55,365,000 in 1955. The next largest is the one immediately below, Personal

Finance, with \$53 million and the next is Niagara, \$23 million, Trans Canada at \$10·8 million, and then Community Finance, \$4·7 million and the total of these five companies make up a very large percentage of the total outstanding at the bottom of the column of \$180 million, not quite 90 per cent as you refer to it in your statement but still a very large percentage of the \$180 million; and I wonder whether it is your expectation that these five companies are substantially all that will be left able to operate effectively and profitably under the proposed rates?—A. No, Mr. Michener, I would expect far more than that to continue.

Q. Of all the others, which I think amount to about 65, which are listed in table 8 which make up the total of 72 registered lenders, how many will you expect to be able to continue in business under the new rate?—A. I would not care to guess, Mr. Michener. I do not believe it is practicable to do so because I cannot speak for the lenders. I do not know what is in their minds concerning the rate of return they expect and what they expect to get out of their business.

Q. You make it very clear that those who will find difficulty under the new rate are those in the "all others" group and those are mostly small operators without many branches and doing business locally?—A. That is true.

Q. So that one consequence, whether or not we approve of it, would be the reduction of the number of companies in the business?—A. Yes I would expect so.

Q. It would not be likely to affect any of the large American companies which are among the five companies I mentioned.

Mr. CAMERON (*Nanaimo*): It seems to me Mr. Chairman that these are rather the kind of hypothetical questions which were complained about just now. Is there any particular point in wasting time in this way? Mr. MacGregor has told us he is not in a position even to guess.

The CHAIRMAN: It seems to me they are most relevant questions.

By Mr. Michener:

Q. I understood from Mr. MacGregor's statement that that is what he anticipated, and it strikes me as being a material consideration for this committee—A. I think it is, and I have stated that. Some firms might withdraw, but, as I said, how many I cannot guess.

Q. Not only is it going to effect a weeding out, if I may use that expression, between the American finance group and Canadians in the business, but it will also effect a weeding out between the large and the small companies in general terms.—A. I suppose the effect will be something the same as in the automobile industry, though the analogy may not be very good. We used to have many small Canadian companies in that field but they have all disappeared and now we have only three or four of the large American automobile companies supplying the field.

By Mr. Hollingworth:

Q. Is it fair to say that because of the present high rate of interest there are many marginal lenders in the field at the present time, and that if the rates were more reasonable they would not be able to carry on? Is that a fair statement?—A. There are not very many companies in my opinion which are really in a marginal position at the present time taking into account not only the return on capital but salaries and other things that the smaller operator gets out of his business.

I do not say this facetiously, Mr. Michener; and perhaps here again the analogy is not very appropriate; but suppose it were proposed to reduce the indemnity of members by 25 per cent and the question were raised: how many

members would not run again? Would each individual not have to appraise his own particular position in the light of what he would do with his time—what other interests he has and how well he can afford to absorb that reduction? There are so many other factors to be considered that it strikes me that there is a somewhat similar situation to be appraised here. One cannot speak for all.

By Mr. Michener:

Q. Here there seems an assumption, though, that it would be desirable to do that, and I am not prepared to make that assumption at the moment. We are making the assumption here that it is in the interest of the borrowers to reduce the maximum rate of interest, and we are trying to estimate the effect of that on those who provide the facilities for borrowing. What concerns me is the statement about the "all others" group in the light of Mr. MacGregor's statement which, if I may repeat it, says:

Taking this group as a whole but excluding the recent licensees with negative earnings, and assuming no change in lending practices above \$1500, it is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds.

A. The phrase "negative earnings" relates to licensees who have recently entered the field and who have incurred relatively heavy expenses getting established.

Q. Yes. But the lenders' own funds are only part of the money employed in the business. What comparison could you make with other businesses? How is one to arrive at an assumption that that is a desirable result or that that is a fair return? What is the average return on equity capital in other lines of business?—A. I think there are tables available in respect to that for most businesses carried on in Canada.

By Mr. Cameron (Nanaimo):

Q. There are none—I think Mr. MacGregor has told you—who would think of having a net return of 81.9 per cent on equity capital—A. I am aware that there is a great variety of returns on the proprietary interest in a business. I have mentioned loan companies because we are familiar with their returns and they are in the lending business. Their net rate in 1954 was, as I have said, about 5½ per cent.

Q. Those are mortgage loan companies?—A. Yes.

Q. A mortgage loan company is not in a comparable position because its loans are secured by first class, improved residential property, which is about the best security on which anyone could lend money. These personal loans are unsecured in effect because the loan companies, as I understand their practice, have not undertaken to repossess or sell the chattels which are pledged. They rely on the personal promise of the borrower to repay.—A. I agree that the security is better in the case of mortgage loans on real estate, but at least they are in the lending business and these percentages are, after all, after losses have been taken into account and transfers made to reserves for bad debts. You asked me what other comparison could be made—

Q. Let me suggest other fields of enterprise—they are not comparable, but take some of the public utilities where the rates are fixed by the government. What about Bell Telephone? Is it not allowed an 8 per cent return on its capital?—A. I mentioned two other fields of activity—merchandising and public utilities—where in each case the return is roughly comparable being of the order of 7 per cent per annum. In making that statement I had in mind a tabulation which appeared in the Financial Post of May 12 of this

year. A long list of perhaps 25 or 30 public utility companies is given—the Bell Telephone Company is included, as is Calgary Power, Gatineau Power, Great Lakes Power, Quebec Power, Shawinigan and so on, and I have likewise in mind the merchandising group where perhaps 20 companies or more are included, among them being Dupuis Freres, Henry Morgan, Holt Renfrew, Loblaw Groceteria and National Grocers—

Q. Is not that table concerned with the yields on the value of the stock?—A. Equity capital or proprietorship interest and after taxes.

Q. And the yield on the basis of market valuation?—A. Equity capital,—I think.

Q. I take it that that is what you have attempted to do here in arriving at your figure of 6 per cent—on the basis of equity capital?—A. Including the balance of the profit and loss account.

Q. That proceeds on the assumption that equity capital is the proper yardstick. These companies operate very largely with borrowed funds?—A. My personal opinion is that for the smaller ones equity capital is the most appropriate basis.

Q. But the ratio is about 2-½ times borrowed over equity capital for the smaller loan companies. With the larger ones—I think it runs many times their equity capital, so the amount of money in a business of this kind is far greater than the equity capital and the lender is equally responsible for both.—A. I should think that each individual lender would make his own decision and would have primarily in mind the return he is making on his capital in deciding whether to stay in business or to take his money out.

Q. You yourself say on page 40:

I believe that lenders who now do 90 per cent or more of the personal loan business in Canada would continue to operate at a reasonable profit under the proposed rates—

This 90 per cent is made up almost entirely of the five companies I have mentioned, and which are listed in table 8. It does not leave much room for any of the smaller companies.—A. I was trying to be conservative. I said at least 90 per cent of the business. I believe a great many of the lenders in the “all others” group would continue.

By Mr. Thatcher:

Q. Is not that the main point of these whole proceedings? If this legislation should pass it will mean that we are just leaving the large American companies in the field, according to that statement.—A. I do not think that is what the statement says, Mr. Thatcher. I did not intend it to mean that.

Q. Since the other companies are doing 85 per cent of the business—Household and Personal alone are doing almost 85 per cent of the business—did you not say a moment ago that the smaller companies would be the ones which would likely go under?—A. It would most likely be the smaller lenders and they are all Canadian. But the statement I made was, I believe, “lenders who now do 90 per cent or more of the business.” I did not just say “90 per cent”. I said: “90 per cent or more”. I think one could add up very quickly several lenders who would certainly continue—

Q. The companies which would likely go under would be the smaller Canadian companies if this change were made?—A. Assuredly—because they far outnumber the others.

Mr. HOLLINGWORTH: Is it not a fallacious argument to assume that many Canadian companies would go under? Is it not fair to assume that most of the profits are sufficiently high that Canadian companies would still be able to earn an equitable return on their money?

Mr. THATCHER: That is not according to Mr. MacGregor's evidence.

The WITNESS: That boils down to the question of what is an acceptable return.

Mr. GOUR (*Russell*): I understood you to say that there were 26 companies—utilities and so on—who were getting about 7 per cent of income on their capital after taxation. This is an important matter because we are dealing, mostly, with Canadian people. I cannot see why a lending company cannot be content to receive the same revenue on their capital as these utility and other companies. You also state, I believe, that 90 per cent of those engaged in this business will be able to continue at the lower rate proposed, but it was also said that 90 per cent will be able to continue at the lower rate suggested, except that they will receive a little less profit. I do not think we need concern ourselves with firms who do not wish to continue in business under these conditions. I wish to congratulate the witness for the splendid brief he has presented to us. And now, Mr. Chairman, I hope you will excuse me as I have to go to another committee, but before leaving I wish to express the hope that the clauses necessary to bring about this legislation will be carried.

The CHAIRMAN: Thank you for your help to the committee, Mr. Gour.

Mr. HENDERSON: I think every one would agree that we want to get for the borrower the best service at the lowest rate, but not to the extent of driving competition out of this field. Somewhere in between there must be a happy medium; I would hate to see this thing develop into a monopoly and I am not quite satisfied with the answer you have given Mr. Michener as to how many of the lending companies would be driven out of the field. We would like to have some idea of how many Canadian companies would be put out of business as a result of this legislation, and if you cannot tell us how many I would like to consider certain factors with regard to this legislation. On page 37 of your statement you say:

For loans up to \$500, being the present regulated area, I estimated that the income would be reduced by about 5 per cent.

On page 40 you say:

I should not want to minimize or gloss over the seriousness of forcing any lender out of business but at the same time I feel that the great majority of those who might withdraw have the ingenuity to put their funds to other profitable use.

If we cannot be definite with regard to the number which would be put out of business I would like to take into account other factors which would contribute to that result, besides this bill. In table 8 which gives gross earnings before income tax and the interest on borrowed money you will note there is a trend there from 12.6 to 11.8 per cent ratio. This is the lowest in these four years. You have a pretty fair idea of the position and I would like to know what your prediction would be with regard to 1956, as to that trend.

The WITNESS: I do not expect it will be down unless lenders continue throughout 1956 to open as many new offices, for example, as they did in 1955. If they do then there might be some further reduction in 1956. I think we have had a wave of expansion in 1954 and 1955, Mr. Henderson, and I would not look for the same rate of expansion with regard to opening new offices every year—and once lenders get offices into operation it could be expected that they will contribute to their profits.

By Mr. Henderson:

Q. I have in mind one small office which is doing a service which no other company wants to do, and I do not feel we should drive such companies away

so fast without knowing what factors combined with this legislation might push them a little faster, because the community which I have in mind might as a result be without any loan facilities. Would you like to make any estimation of the likely trend of interest rates?—A. I just cannot make any forecast on that matter, I am afraid.

Q. You must have made a forecast in order to arrive at the rate which has been set and I was just wondering if that rate which you set in the preparation of your brief took into account the increase in the interest rate which has taken place, as far as bank interest is concerned.—A. I do not think that many people really expected to see interest rates rise as quickly as they have in the past 9 months, but the rate of interest itself is a relatively small element in the whole rate formula. After all, it is only a matter of one half of one per cent or one per cent or something of that order in 20 per cent or 24 per cent.

Q. But I think an increase in the bank rate is bound to result in an increase in the cost of credit elsewhere; the small lenders who go elsewhere for their funds, and who raise them in a competitive field would have to pay more because the whole field of interest rates, including interest rates on real property, will have gone up considerably. You would have to take interest rates into consideration.—A. I do not think maximum loan rates can be set with such a degree of precision. I do not think one could set a rate that would be appropriate as a maximum permissible charge having regard only for interest rates prevailing today because we know that in the past they have varied a great deal from year to year.

Q. One other question. If you are going to project this information, what in your opinion do you think the losses will be in future in the loan business in Canada?—A. I am afraid this is another place where I am greatly inclined toward caution in any reply I may make because I would not care to project what the trend of losses might be. I can only look at the past and at the present and there is nothing in the past or the present to raise any alarm in that respect, but I would say that if the future shows some radically different pattern of losses from the past then I suppose an amendment would probably be made to the act in order to provide for it, if it were an important consideration.

Q. On page 19 of your statement you say, toward the end of the page:

The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finance rather than misfortune would seem to underlie a great proportion of the loans made.

I gather that you anticipate that at the rate of borrowing that is now going on there might be a chance that losses will increase. Is that really what you mean—or what do you mean by that statement?—A. Well I had in mind dealing with the present situation as far as practicable on a factual basis. I cannot say that in making that statement I had in mind a likely increase in the rate of losses.

By Mr. Thatcher:

Q. Have any companies made the statement to you that they might be forced out of business by this legislation, Mr. MacGregor?—A. We have heard it said and representatives of the association have expressed that view.

Q. In how many cases? I take it this was on behalf of the whole association—not specific cases.—A. The president and some of the other officers of

the Canadian Consumer Loan Association intimated, I think, that the proposed rates were much too severe, and that many lenders would be put out of business. I cannot recall that they stated how many. Perhaps it is fair to say that the tenor of their remarks was that most of them would be put out of business.

Mr. THATCHER: Thank you.

The CHAIRMAN: Mr. Henderson, have you finished your questions?

Mr. HENDERSON: Well, I was just trying to get some more definite information as to how many companies would be "knocked off", but apparently that is very hard to determine.

The WITNESS: That is correct.

By Mr. Henderson:

Q. At the same time we are asked in the legislation before us to decide whether we should give effect to these proposed changes or not. I was hoping that you would be able to take into consideration the factors which we have now—the increased interest rate and any other factors which might have a bearing on the cost of operations, such as the increase in wages, and project them into the future for a period of 9 or 12 months so that we would have some idea whether this was an appropriate rate of interest and whether not too many companies would be put out of business, and whether we should not drive competition out of the field. I was just wondering if—possibly not now, but before we end our discussion—you could give us some projection on those lines?—A. I am afraid I could not. I would not want to guess how many lenders might withdraw. It is true that since this bill was first introduced interest rates have risen somewhat, but I would not want to project the possible effect of that on the lender in the future. There are, of course, some off-setting factors. Business is increasing and the earnings are likely to increase because of the increase in volume.

By Mr. Philpott:

Q. I have three or four questions to ask on that same subject. It seems to me we are coming right down to the most important and basic questions before this committee. I take it, from your whole brief, the main advantage of the proposed reduction of rates would be that the great majority of borrowers would get lower interest rates. As against that, as far as we are concerned on the committee, there would be certain disadvantages, and the one obvious disadvantage would be that a certain number of business concerns in Canada might be put out of business. I see by what you say on page 40 that 90 per cent or more of the personal loan companies would, however, continue to operate. Do you mean by that that 10 per cent of the smaller loan companies might be put out of business?—A. No, I did not; Mr. Philpott. I said: "lenders who now do 90 per cent or more of the business" not "90 per cent of the lenders by number".

Mr. MICHENER: It would be more than 10 per cent by number.

By Mr. Philpott:

Q. More than 10 per cent by number would be affected by the lower interest rates?—A. I did not say that.

Q. What I am trying to do is to get clearly in my mind the balance of the advantages and disadvantages, because that is the decision we have to make here. I gather that, on one side, there would be a certain number of people in Canada who might be put out of business and they are, by and large, the

smaller concerns and, of course, Canadian owned, which is a factor of importance to us. What I want to find out is whether these smaller companies who might be put out of business render a service to the people of Canada which is not rendered by the other companies.—A. That might be so in some particular localities where they are operating alone, but the number of such localities is, I think steadily decreasing.

Q. It has been submitted to me by some of them—and I am not prepared to say what I think of the submission—that in some cases they make loans to people whom they consider to be good risks, but that these same people would not be considered good risks by the big companies who operate on a more “cut and dried” formula. In other words, the other companies would not bother with this type of loan. Would that be your experience?—A. That might be so in some cases.

Q. So that would be one thing which we would have to consider. There is one other possible disadvantage which I can see from our point of view. How true is it that before we had the laws in Canada governing the small loans companies that a good deal of the business was done by what they call loan sharks? In other words, if we put out of business a certain number of people who now do one-tenth of the business, how much of that business which now goes to those licensed small loans dealers would go to unlicensed loan sharks at exorbitant rates of interest?—A. In my opinion, it would be very very small.

By Mr. Monteith:

Q. As I understand it, the companies doing about 90 per cent of the business would probably remain in operation, or something in that nature?—A. Yes.

Q. Do the majority of those companies not bring in their funds for loaning from the United States?—A. The majority.

Q. The majority of the funds used by that 90 per cent of the business comes in from the United States?—A. Yes. So long as Household and Personal continue to supply funds as at present, the majority would come from the U.S.A.

Q. Would there, in your estimation, be any possibility whatsoever of these companies with head offices in the United States finding a more remunerative field in certain of these states which are included in this list where the rates are higher?—A. I should not expect that, Mr. Monteith. I doubt very much if many, or any, of those United States lenders are earning substantially higher profits in the United States than they would earn here.

Q. I notice that some of the states have comparatively higher rates.—A. I think one feature which tends to keep expenses down in Canada is the fact that lenders operate, country-wide, on the basis of one scale of rates rather than ten or forty-eight different scales as they may do in the U.S.A.

Q. Then there would not be any danger, in your estimation, that there would not be a proper servicing of the field of small loans?—A. I may be wrong, but I have expressed the opinion that I think enough would continue to provide adequate facilities.

By Mr. Fulton:

Q. In discussing the effect of this change on the present lending companies, at page 38 you make the statement that the profit rate of one small loans company, Personal Finance, would be reduced to the rate of slightly less than 4 per cent. You go on to say,

This is probably the minimum level at which a large lender can be expected to operate but there is good reason to expect that this rate

would improve once the expenses arising from the opening of so many new offices and the rapid increase in the volume of new business subside.

I am just wondering on what basis you make that assumption, because would it not be as reasonable to assume that when they opened those new offices they expected to show a profit eventually on the basis of the present rates? In other words, is it fair to ask you to reconsider that statement applying to it the effects of the reduction in rates which the bill would impose?

Q. Yes.—A. Had they known that the maximum permissible rate might be reduced, they would not have opened all these new offices?

Q. Yes. Particularly applying that to those which you mentioned—and it might apply to others—where they find that their profit might be reduced quite appreciably to the extent that it might compel them to re-assess and close those offices.—A. If the company intends to continue operating at all, I think it would probably have opened the offices anyway; because, if you are a lender, after the outstandings, as they are called, reach a certain point it is generally considered by the lenders to be more economical to open up another branch. Unless the company intends to remain in a static position, I think they would have opened up all, or most, of those offices anyway. Perhaps I have not answered your question.

Q. I will put it this way. Expansion is much more attractive when you are making a substantial profit. You have that backlog.—A. Yes.

Q. If that is a fair statement, would it not be as reasonable to assume that the effect of this legislation would be to make them re-consider and close some of these marginal offices? I mean, surely it is fair to say that the present plan of all the companies which have recently opened offices, which you yourself say at the present time are not individually profitable, was based on the rates in existence when they undertook that expansion?—A. Well, they are not profitable at the present rates, but they probably would not have been profitable in the first year on any rates. I am speaking now of last year. With the proposed new rates it is conceivable that some lenders who have opened offices might close some of them; but I can only say that I would not expect that would be the result. Competition again is an important factor. I think most lenders would be reluctant to close an office even if it is a marginal office in a locality where, if they did so, their competitor would be left to absorb all available business.

Q. Is it not also a fair assumption, from what you told us in the brief, that the competition would quite possibly be reduced—competition between larger concerns, to that extent that competition, at least in terms of numbers of those in the field, would be less?—A. I think that the lenders who may withdraw would not likely alter the competitive situation very much.

Q. But the numbers of those may not be less in absolute terms but might be less in terms of numbers of those engaged in competition?—A. I do not think that the withdrawal of a few of the smaller lenders would alter the situation appreciably in any respect.

Q. I was relating it to my question to you as to whether some of the major lenders too would not be led to close some of those offices which they have recently opened?—A. They might, Mr. Fulton; I do not know. I should not expect it, but they might.

By Mr. Michener:

Q. I was wondering; if there is less profit there must be less money available. That seems to be the law of the market.—A. I am not so sure that there would be less money provided by the lender who continues, but there would be fewer potential lenders desiring to get into the field.

Q. You think those who will continue will not be affected by the fact that they will make less profit?—A. I would have to agree that they would, to some extent.

The CHAIRMAN: Gentlemen, we will adjourn and will resume at 8.15 this evening.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Thatcher—

Mr. THATCHER: Gentlemen, I would just like to say a word about our meetings. I think that two or three weeks ago the steering committee decided that this committee should sit twice a day and see how we went on while parliament was sitting. I am not objecting too much to the four meetings but I think that if we are going to have four meetings we should arrange them so as not to sit at night. My own position today is that I have had five two-hour committees, some in conjunction with each other, and that, in addition to a sittings of parliament in the morning, afternoon and evening, creates an almost impossible situation. I think that other hon. members are in pretty well the same position and I would ask you to take up the matter with the steering committee to see whether it is advisable to go on at this pace. You can only be in one place at any one time.

The CHAIRMAN: I understand, Mr. Thatcher, that you have probably never encountered a strain like this before.

Mr. THATCHER: That could be, and it is hard work.

The CHAIRMAN: I will certainly take it up with the steering committee. I do really sympathize with your position; you must be getting very weary indeed.

Mr. Fulton, were you through with your questioning?

By Mr. Fulton:

Q. I have one or two more questions if I may ask them, Mr. Chairman.

On page 41 of the brief, Mr. MacGregor, you state:

Another proposal in the bill is to include in the definition of "cost of loan" any premiums for life insurance or personal accident or sickness insurance arranged by the lender covering the indebtedness of borrowers.

Then, after setting out a number of facts you conclude that there have been increasing signs recently of the desirability of the amendment proposed. I would like to begin by asking you if you could give the committee the benefit of your observations as to what are the signs of the desirability you refer to? What has been happening?—A. Mainly the developments in the United States, Mr. Fulton, which I described at the last meeting. A great many abuses have developed there and it is quite a serious problem.

Q. Have these abuses developed in Canada?—A. Not yet.

Mr. CAMERON (Nanaimo): Mr. Chairman on a point of order—As I recall it the other day, dealing with this question of members who have not been at previous meetings asking for the same information as has already been given to the committee, you at that time expressed the view that we should not have repetitions of questions which have been asked of Mr. MacGregor before.

The CHAIRMAN: Yes, I did express that view Mr. Cameron but it turned out that Mr. Argue, your compatriot, was so insistent on the subject that I did let him do it, and I think in view of the fact that I "leaned over backwards" to be fair to him I think I should do the same for Mr. Fulton.

Mr. FULTON: I was not aware that we had reached page 41 before, Mr. Chairman.

Mr. CAMERON (*Nanaïmo*): Your colleagues have been asking all possible questions on every paragraph.

The CHAIRMAN: It is also very difficult for any two people to ask identical questions, as you will well recognize.

The WITNESS: The practice has developed, Mr. Fulton, in the field elsewhere of arranging life insurance coverage in connection with loans. Sometimes it has been arranged on an individual basis and sometimes on a group basis but the greatest abuses have arisen admittedly in the case of individual coverage—the borrower has been asked to pay the premiums and the lender has usually received the commission and in many cases both the premium paid by the borrower and the commission paid to the lender have been excessive. Sometimes, the coverage has also been excessive. The subject has been investigated by a Senate committee in the United States. The likelihood of abuse is much less in the case of group insurance and in some instances the lender absorbs the whole cost of the group insurance. That is the practice in the case of several lenders in Canada at the present time. They provide life insurance coverage in connection with loans but the whole cost is absorbed within the maximum permissible rate. In other cases in the United States, the borrower is asked to pay for the coverage. There are of course different opinions as to the wisdom of the different arrangements but my personal opinion is that the practice followed up to date in Canada whereby the cost of insurance is absorbed by the lender within the maximum permissible rate is the most satisfactory, and it enables one to adhere to what a good many people regard as the corner stone of good small loans legislation, namely, that the maximum permissible charge should be all inclusive—that there should be no other charges at all to be borne by the borrower. I gave some quotations at a previous meeting from some authorities in the United States on this subject which I think you may find interesting in that regard.

Q. If we were to concern ourselves, through legislation, with the amount of premium that might be charged to the public in order to keep the maximum cost or maximum interest rate down to the lowest possible figure, and then leave it open to the borrower as to whether he wished to incur the extra cost of insurance and regulate the premium that could be charged, in that case would you not possibly get a lower cost on the loan?—A. I would have two main comments to make on that suggestion. One is that it violates the one-charge principle which I think is most important in small loans legislation. The second comment I would make is that I would doubt the constitutionality of legislating with respect to a maximum insurance premium that may be charged. The basis of this legislation as I understand it is that it is interest legislation, and I personally would doubt the authority of parliament to attempt to fix a maximum insurance premium that a borrower might be asked to absorb.

Q. Leaving that question aside for a moment—perhaps we shall hear later from Mr. Varcoe on that subject—and dealing with your earlier statement about the principle of the authenticity of the charge: that would mean to say, in effect, that every loan should be insured?—A. Not exactly. We have the principle in the act now of an all-inclusive charge but only seven lenders do provide life insurance coverage at the lenders expense. Most lenders do not provide such coverage at all.

Q. If you are going to fix your maximum rates to include the portion attributable to the cost of insurance, is it not the experience that that maximum rate will be charged by all lenders whether or not they insure?—A. That is pretty much the situation now. Most lenders charge the maximum permissible rate of 2 per cent per month but only a few of them provide life insurance coverage as well.

Q. That is the point I was after. If what is sought is to fix a minimum lending rate which will provide for an adequate return to the lender, it seems to me that you could fix a lower reasonable minimum if you did not include the insurance charge and left it to the borrower as to whether or not he insured the loan. If you fix as your maximum rate one which takes proper account of the cost of insurance, it seems to me you are fixing a maximum rate higher than you need in order to include the insurance feature—A. It would probably mean in practice that the more efficient lenders would be more disposed to provide such coverage in connection with loans because they could better afford the cost, but it would still be optional to a lender whether or not he provided life insurance coverage. The proposal would simply mean that if life insurance coverage is provided the charge for it must be included in the maximum specified rate, whatever it may be.

Q. Would the result be that insurers would be included whether or not the buyer asked for it?—A. In all probability if a lender were to make insurance arrangements under the conditions proposed the coverage would be granted to all borrowers.

Q. What was the compelling reason for your recommendation in this case?—A. To avoid the abuses that have developed elsewhere where borrowers have been asked to absorb the additional charge for insurance and the additional charge has in many cases been excessive. It is true that the borrower receives the protection of the insurance but the lender also derives benefit from it because it improves his security.

By Mr. Crestohl:

Q. Where is the unfair element in that arrangement?—A. The unfairness is in asking the borrower to absorb the extra charge, especially if that extra charge results in an additional benefit to the lender.

Q. But you state that the borrower also gets the benefit of protection. He gets a *quid pro quo*—he pays for the insurance and he gets protection.—A. Yes, but the lender gets protection from it too, and for nothing.

Q. Does not the lender incur certain overheads in looking after this operation, in maintaining this insurance system and keeping a record of it, for which he is entitled to some compensation?—A. The additional cost is pretty small. In practice he would probably get the dividends under the policy. It just amounts to a violation of the principle of the all-included charge, which, as I say, has been held to be the best practice.

Q. This coverage can only be arranged through insurance companies and insurance companies are subject to federal inspection and control. I do not see that there is any insuperable difficulty there in stopping the abuses.—A. Of course, so far as supervision of the insurance end of it is concerned, Mr. Fulton, jurisdiction is divided. We, in the Department of Insurance, supervise from the point of view of solvency of insurers and have relatively little to say concerning the details of the manner in which the business is conducted. For example, we have nothing to say about contract terms or the licensing of agents or anything of that kind.

If it is your wish, I shall mention some of the abuses which were found in the U.S.A. in this field. This is part of some testimony before a United States government committee studying this problem. I quote:

The subcommittee after its exhaustive study, found that there are certain key areas which must be regulated if the abuses of this insurance are to be eliminated and its benefits preserved. The most prominent abuses we feel are: pyramiding, coercion, excessive coverage, and the borrower being deliberately kept in ignorance of his coverage to avoid claims.

An unscrupulous lender pyramids insurance policies in a variety of ways. Primarily it arises where a borrower, after negotiating an initial loan with insurance protection, finds that he needs additional cash. The lender makes the second loan with full insurance coverage, but does not cancel the insurance on the first loan, even though the initial loan is cancelled when the second loan is made. This pyramiding of policies is repeated until the borrower is burdened with insurance far beyond any reasonable need.

We further found that some lenders require excessive coverage which bears no reasonable relationship to the loan.

It was also realized that the lender requiring insurance occupied a position wherein he could control a so-called 'captive market'.

We found that, in some instances, borrowers paid for policies of insurance and were kept in ignorance of the existence of such coverage. In other words, they were not advised of the existence of any insurance.

Perhaps that will give you some indication, at least, of the problems that were encountered.

Q. Well, one cannot overlook the evidence and the conclusions of a committee of that nature; but I would further suggest, with respect but still very definitely, that a lot of the abuses can be taken care of by virtue of the legislation or regulations requiring the disclosure of insurance when it is taken out—I am thinking particularly of the one where it says the borrowers did not know of the extent of the coverage and therefore were not able to take advantage of it. That, it seems to me, could be taken care of. Therefore, I believe that a lot of the abuses can be safeguarded against by other methods than this.—A. Technically, they probably could be through provincial legislation designed to deal with that particular problem, if maximum premiums, and so on, were set. But looking at it from the point of view of small loans legislation based upon interest as the foundation of it, I believe that the only safe course is to stick to the one guiding principle that has been adhered to throughout small loans legislation generally, namely, the specification of a maximum charge which includes all possible charges, leaving it to the lenders to absorb the cost of administration, whatever that may be, and to absorb the cost of insurance if it is their wish to provide insurance coverage with respect to their loans.

Q. With the greatest respect for your opinion—which I do have—but preserving a further difference of opinion with you, might I ask this: if it is felt desirable that these loans should be insured, then it is an argument that surely the sound way to approach it would be to say that every loan must make due provision for the insurance coverage in the way you said?—A. I do not think that it would be practicable to require that insurance coverage be granted. After all, this legislation is designed simply to set a maximum permissible rate which lenders may charge.

Q. Surely our experience is this, that once a maximum rate is set under legislation under which these companies operate, the inevitable tendency is for that to become a ceiling and not a floor; rather to become both a minimum as

well as a maximum?—A. Yes; but at the present time we have one large Canadian lender, at least, charging less than 2 per cent for loans above \$500 and also providing insurance on such loans.

Q. Then I would answer you by saying, if that is the case with respect to one of the large companies, then why are you so afraid of these abuses which you referred to in the United States? If our experience in Canada is that these people who are doing a large volume of business can be trusted, then what are you concerned about?—A. The people who do a large volume of business do not presently insure. I mentioned one that does provide insurance.

Q. And the others do not charge for it?—A. There are seven companies that provide it but do not charge for it; they provide it now within the maximum permissible rate.

Q. I fail to see the urgency of the problem.—A. I think one reason is that lenders elsewhere—and I believe perhaps they may be expected to do the same here—may be more prone to make insurance arrangements in order to give additional security and to derive some additional profit, if they can do so, by arrangements outside of the maximum permissible rate. That is how abuses have arisen elsewhere. I suppose, if the maximum rates in Canada are reduced that lenders may naturally look more carefully at other ways in which they may—if they do not supplement their revenue—at least provide better security for themselves at the borrowers' expense.

Q. I suggest that one of the ways that unscrupulous ones will work is by charging the rate set for potential insurance and not giving it, if your argument is correct.

By Mr. Hollingworth:

Q. Would it not be more likely that the so-called marginal operators or pseudo loan sharks would be taking advantage of such as you were mentioning? I do not think that we are too much worried about the largest companies or the smaller reputable companies, but I would think that this would be a device whereby some of the more shady operators in the business would be able to fleece the public. I think that this is probably where the difficulty would be. I do not think that we have to worry about any of the reputable companies, which the great majority of them are, but I think it is probably necessary to take care of the companies which are not now so reputable.—A. I believe under present conditions there is no alternative to ensuring that borrowers are not asked to bear some additional charge through which the lenders benefit either directly or indirectly. One has a choice of one all-inclusive maximum permissible charge or more than one. The present bill adheres to the principle of one over-all inclusive charge.

By Mr. Crestohl:

Q. Would you favour the elimination of insurance?—A. No. I think the present situation is the most satisfactory of all, where lenders, if they feel able and desire to do so, absorb the cost of insurance within the stipulated maximum rate.

By Mr. Fulton:

Q. Surely the cost of insurance coverage is not the cost of making a loan. Perhaps that is where we are arguing at cross purposes. You are talking about all-inclusive charges and I took it that you meant an all-inclusive charge for making the loan.—A. Yes.

Q. Surely the charge on that loan for insurance is not a charge attributable to lending money, it is attributable to protecting the loan.—A. Interest is partly for the use of money and partly for the risk of losing it.

Mr. REGIER: It is a part of the risk.

By Mr. Fulton:

Q. It is another factor in the business of making a loan.—A. It is a factor, or a feature, that has developed in this business and which is closely related to the security for the loan.

By the Chairman:

Q. Are you claiming that the present wording of the act permits an extra charge for insurance, or are you only suggesting that the wording of the act is uncertain?—A. I think it is uncertain. We have interpreted it to mean that a lender can only make one all-inclusive charge. The proposed wording would certainly remove any doubt.

The CHAIRMAN: Possibly we could leave that for Mr. Varcoe.

By Mr. Crestohl:

Q. Mr. Chairman, I am still not clear as to whether or not you are suggesting that insurance should be a compulsory feature?—A. No, I am not.

Q. You are saying that the loan charge should cover all possible costs or expenses surrounding that loan?—A. Yes.

Q. And the insurance?—A. Yes.

Q. Assuming that the lender, under these circumstances, decides, "I will make this all-inclusive charge but I will not insure the loan". Then he will make a greater profit because he does not have the expense of insurance?—A. Yes.

Q. That follows logically from what you said. Consequently, do you not think that that will deter people from borrowing because the lender will hesitate to insure the accounts?—A. Only a relatively small proportion of the loans now are insured. The present situation has not deterred anyone that I can see.

Q. There is no compulsory insurance at the present time?—A. No, certainly not.

By Mr. Fulton:

Q. Do any of the companies in the field at the present time insist that insurance be taken out to cover a loan?—A. One company did back in the thirties before the Small Loans Act was passed but discontinued doing so. I described that practice previously. In addition, there are two relatively small licensees which, as I have said, offer life insurance facilities to borrowers at additional cost to the borrowers, which I also described at a previous meeting, and we have permitted those arrangements to continue because they were made prior to the passing of the Small Loans Act. In those two small cases, theoretically, the coverage is optional with the borrower. But I think it is only reasonable to assume that if an applicant comes into an office to make a loan and the lender says, "these are my terms, but there is also an insurance scheme", that the applicant will probably take the insurance. It is for that reason that I say that I think that the distinction between optional and compulsory facilities, is rather theoretical because it is not very difficult to imagine that one either takes the loan with the insurance or he does not get the loan. I do not say that that is the case, but it could easily become the situation.

By Mr. Regier:

Q. Mr. MacGregor, would you not admit that the situation becomes much more acute when you begin to think of loans from \$500 to \$1,500, in the bracket that the new legislation is proposing—and that a lot more so-called racketeering—if you like—would reappear, especially in the sale of used automobiles, where the lending company may make as a condition of the loan the provision

that you also take out, through their agency, not only automobile insurance but also life insurance for the remaining unpaid portion of the loan, and that because of the legislation which is contemplated raising the maximum from \$500 to \$1,500 this insurance feature has assumed much greater significance than it has hitherto in the smaller loans?—A. I suppose it is reasonable to assume that, if the amounts are larger, the possibility of profit to the lender may be greater, but I personally would not stress that point.

Q. Another thing is that you mentioned there are a number of Canadian finance companies, or companies which are under your jurisdiction, which have been giving this insurance free; and then you pointed out what is happening south of the border, and your insistence on this is merely more or less a precautionary measure. Would you not admit that some Canadian finance companies now operating in Canada are using this weapon as a club over the heads of their customers before they will grant the loan, and that we need not necessarily refer to what is happening south of the border because we actually know that some of it is occurring here right now in our country?—A. Have you in mind licensed or unlicensed lenders?

Q. I had more specifically in mind now those within the \$500 to \$1,500 field. They would, I suppose, be unlicensed?—A. Yes. I really do not know what insurance arrangements the unlicensed lenders operating in that field may have. However, I have in mind one case where an acceptance company, not under our jurisdiction at all, made arrangements that I think were very much open to criticism. It is that kind of thing which I have in mind in suggesting, as I did in one place, that there have been increasing signs; that was one of the signs.

Q. The company of which I was thinking handles the financing for one of Toronto's—if not the largest, at least one of the largest—automobile agencies, the Associated Discounts Limited. I do not know whether or not they are licensed. However, they will make you take out the automobile insurance through them, in addition to which you must take out life insurance with them. It specifically says on the policy that if the loan is repaid before the due date, there will be no cancellation or refund of the life insurance. I know that any of the customers who are smart enough insist on a refund and are able to get a refund, a refund commensurate with the protection which they have had. However, I am also willing to believe that 90 per cent of the customers are either afraid or are too ignorant of their rights to insist on the refund and do not get the refund. It is things like that which I think will be avoided if your recommendations are enacted.—A. That company is not licensed I might say, under the act, Mr. Regier. It does not make loans of \$500, or under. It operates in the other field.

Q. However, under the new legislation it would be?—A. If they make loans up to \$1,500 they would be required to obtain a licence.

By the Chairman:

Q. If they are in the loans field rather than in the discount?—A. That is quite right, Mr. Chairman.

By Mr. Henderson:

Q. Mr. MacGregor, before we hear Mr. Varcoe, I would just like you to explain—if the licensee comes in to you—what procedure do you use prior to your approving the applicant for a licence?—A. I should not like to say that we have any standard treatment that we accord applicants, Mr. Henderson. The first thing, of course, is to investigate the corporate status of the applicant to ascertain its powers. For one thing, we always endeavour to ensure that the corporate powers of a licensee, however incorporated, whether by letters patent

obtained in a province or otherwise, conform to the powers that are set out in section 14(a) of the Small Loans Act, being the powers that a small loans company incorporated by parliament would receive. In other words we attempt to ensure that licensees have uniform corporate powers. Secondly; we endeavour to ensure that the capitalization of the proposed company is appropriate having regard for the likely extent of its operations. We are obliged, under the act, to satisfy the minister that the applicant, if licensed, will carry on the business of money-lending with efficiency, honesty, and fairness to borrowers. Those are the words used. So that we always seek to ensure that the central figure in the operating office is a man experienced in the small loans business. If the applicant has been operating already in the lending field, perhaps above \$500, or in some manner not requiring a licence, we naturally seek to ascertain his record.

The CHAIRMAN: Mr. Henderson, I wonder if you could speak up. It is very difficult to hear you.

By Mr. Henderson:

Q. Mr. Chairman, after that, we could presuppose that upon the passing of this legislation in accordance with your predictions at pages 40 and 41, where some licensees will sell out to other companies. Now, what procedure do you use upon the assigning of licences to the purchaser of another company?—A. It would depend whether one of the parties were a small loans company incorporated by parliament or not. If it were a small loans company incorporated by parliament we would, of course, ensure that it follows the procedure that must be followed by such a company under the Small Loans Act, and the Loan Companies Act, which also applies to it. In the more usual case, where the contracting parties are provincially incorporated, we would not stipulate any particular procedure, except that the sale, or the merger, be by way of agreement signed by the two parties, and we would request a copy of the agreement.

Q. Expecting that there will be some that will have to be sold, and their contracts taken over by larger companies, would it not be easier to cancel that licence, from the department's point of view, and from your supervision point of view?—A. If it involved the complete sale of a licensee's business the licence of the company selling out would not be renewed following expiration.

Q. It would be incorporated—that is, if you had 132 licensed now and six were sold to existing companies you would cancel out those six licences, and at the next term they would be incorporated with the purchasers licence?—A. I am not sure that I understand your question, Mr. Henderson.

Q. Do they renew their licences each year?—A. Yes.

Q. Then when the company renews its licence, you would not renew the licence of the company that had been purchased?—A. We would not renew the licence of any lender that had disappeared through selling his business to another licensee.

Q. But there would still be available, if you wanted to trace who the lender was—there would be available in the records as to what disposal was made of the licence?—A. The licence would simply not be renewed.

Q. But it could be traced?—A. I beg your pardon?

Q. It could be traced if any action was to be taken against that licensee?—A. We keep a complete record of every licence issued, and the subsequent history of it.

Q. When you renew these licences each year, Mr. MacGregor, do you ever call the licensees in and have them justify something they have done, or have not done, or is the renewal just automatic?—A. We review every case before the licence is renewed but do not usually call licensees in at the end of the

licence year. I cannot recall any case where we have done that. If we have a matter for discussion with a licensee during the year, it is usually taken up at the time and settled.

Q. If, Mr. MacGregor, the loan business were concentrated in four or five companies, eventually, do you think your administrative department, as it is now, could handle the supervision of those four or five companies, or would it entail greater supervision than at the present time?—A. I would think, or at least hope, that that is a hypothetical question, Mr. Henderson, and that we would have more than four lenders. But, if that were the result, I could not say, offhand, that the administrative problems would be increased. The number of licensees to be dealt with would be smaller and the volume of business would be the same or approximately the same.

Q. I was just wondering if, in your words to Mr. Fulton that these companies, since they have lower interest rates, they might be looking for other ways to supplement their incomes, being larger, as they are, or could be, it would be more difficult for you to supervise?—A. I do not think so. I do not think size would make any difference.

Q. What I was really getting at—and I was impressed with the brief, is to ascertain how much of the share of the national economy these loan companies are involved in. I was also impressed with the Banking and Commerce committee some two years ago when the banks were back for the renewal of their charters, and wondered if that policy would not be a good idea to follow as far as the loan companies are concerned. You recall the Banking and Commerce Committee, when some of the banks were making remarks about another bank going into the small loan business, the Bank of Commerce. It is a good place to air your difficulties. They became large entities, and the larger they become, I submit the more difficult it is for you as superintendent of a branch of government to control. Would it not be a good idea, that since the field will be narrowed down, that these licensees should present themselves before a committee every so many years and let us have a look at what they have been doing? It would not only clear it for the public, but it would clear it as between themselves, so that there will not be unfairness as between them.—A. I really do not think that the size would make any appreciable difference as an administrative problem. There are some licensees now—one in particular that is very large. There are a large number of small ones; some very small. So also in the insurance field we have some giants, and we have some very small companies, but the administrative problems are hardly proportionate to size.

Q. My problem was in suggesting that of another problem, Mr. MacGregor. When we take the small company or the competitive companies in small areas out of the field, we may find that the bigger companies, because they are not too profitable, are not opening branch offices to service those localities. Such instances as those, it flashed through my mind, might create a problem that you might have to handle, and it would become very difficult. I just wanted to get your opinion while you were available.—A. We really are not worried about that, I must say, Mr. Henderson.

By Mr. Michener:

Q. Mr. Chairman, I think we are nearing the end of Mr. MacGregor's testimony, and I should like to assure him that although my questions have been somewhat searching if not critical, I have not disagreed with all that he has said. I would like to thank him for his assistance to the committee in describing the operation of the act as it has been administered. He expresses the following sentiment in his last paragraph when he refers to the good cooperation of the licensees as a whole, "there can be no doubt conditions in

the regulated field of loans have greatly improved since the act was passed". I think the committee as a whole will subscribe to that statement completely. I personally feel that the all-inclusive charge is a sound basis of regulation. I am not so sure about the legality of it, but we may hear something about that from Mr. Varcoe.

Mr. Fulton has raised the question of the legality of incorporating the insurance premiums as an element of an interest charge, but it seems to me that the principle of a maximum all-inclusive charge has been the secret of the successful administration of this act, and has eliminated from the field the unscrupulous lender.

Now, the thing we have to decide is whether the maximum is too high, and whether there would be a reasonable margin for operation by the ordinary average business man under a lesser rate. There are just one or two questions that I have not satisfied myself on, and that I want to conclude with.

One comparison that Mr. MacGregor made was with the mortgage loan companies, which are also licensed and administered under his jurisdiction. The rate of return which they have been earning on their paid up capital was 7 per cent, I think, or $7\frac{1}{2}$ per cent.—A. About 7 per cent in 1954, before transfers to reserves.

Q. Yes. Now, that as I pointed out earlier, is in a field of relative security as compared to the personal loan. What I would like to ask is whether there is any clamor to get into that field? How many people have applied for licences under that act in the past year?—A. Only one, Mr. Michener. But, the reason is that the original purpose of loan companies has been altered a good deal. The original purpose, of course, was to provide mortgage money for loans on real estate. The loan companies raised the money by the issuance of debentures, or the acceptance of deposits from the public, and lent it in that way. As time went on, however, the life insurance companies, especially, and other institutional lenders, became a very important source of mortgage funds. So that the original need of the loan company, as such, was to a substantial extent reduced. There have not been very many loan companies incorporated in recent years. There was one incorporated by parliament a year ago.

Q. A year ago. That is the only one in many years?—A. That is the only one that I can recall in 10 or 15 years.

Q. So that I think one might conclude that in that field, that attractive field of lending, where the security is substantial, and the return is 7 per cent, there is no expansion of the number of people, the number of companies, doing business?—A. Not dominion companies, anyway. There have been a few provincial companies incorporated.

Q. Now, another question which is merely by the way. I was struck by a phrase that you used, Mr. MacGregor about those who are in the business having sufficient ingenuity to put their funds to profitable use elsewhere, assuming they cannot operate under the new rates. I would like to ask you this: do you intend to say that it take considerable ingenuity to remain in the loan business, and therefore, that those who are in the business have a certain amount of ingenuity?—A. I did not really have that in mind, Mr. Michener, but rather that many of the lenders have associated companies—acceptance companies, or the like.

Mr. CAMERON (*Nanaimo*): I do not know why one should complain, I think that is a very kind word, Mr. Michener. I myself would be tempted to use a much harsher word.

By Mr. Michener:

Q. It just occurred to me that if it was the kind of business that required such ingenuity to remain in it, really we should not consider doing anything that would drive—that would make it impossible, or set a higher standard than the standard of the ingenious. However, that is just by the way.

Now, I think a good many people might be shaken a bit by the theory which you advanced about the place that advertising plays in this business. I am not referring to the type of advertising but to the quantity. You suggested, Mr. MacGregor, that business would be as well off with half as much advertising as the present amount. In other words, if 10 per cent is spent in advertising, and it has been reduced to 5 per cent of the gross return, then it could just as well be reduced by half again and nobody would suffer. Now, it strikes me that that is a pretty dangerous proposition for any government to undertake to present to a business. I wonder whether you are advancing that seriously as an answer to a reduction in the rates; it never has struck me that it has been the role of any administrative bureau of government to see how much or how little advertising a business might do. That surely is within the realm of business judgment. If too much advertising is done, the return does not repay the expense, and vice versa.—A. I had no thought of suggesting any particular limit on advertising. As I mentioned before, Mr. Michener, I do not think it would be practicable to do so anyway. But, I do think that some money might be saved under that head. The question of advertising was investigated very carefully in Britain when the Money Lenders Act there was under consideration in 1925 to 1927. Rightly or wrongly, in their wisdom they decided to abolish all circulars. I personally have received three circulars from one lender this year already. I think each of those circulars, apart from the postage on it, must surely have cost 10 or 15 cents.

Q. You are fortunate in not having received three circulars from a thousand other businesses as well, because most people's waste paper baskets are full. But, are you seriously suggesting to the committee that the federal government should concern itself with the amount of advertising which this, or any other business does?—A. Not seriously in the sense that action should, or could be taken to do anything about it.

Q. Well, if it cannot be taken, why are we bringing that element into the consideration of the rate, because I agree with you that it cannot be properly taken. The only way you could reduce advertising would be by a combination of the lenders, which would be perhaps regarded by Mr. Varcoe as some kind of combination in restraint of trade. Certainly the advertising agencies and the newspapers would regard it as restraint of trade. I think they would be somewhat disturbed by even a suggestion that it is a proper matter for regulation by the federal authority.—A. I made it as an observation only, namely that I thought some money could be saved under that head if lenders think these rates are too restrictive.

Q. If we take it on that basis, perhaps that is sufficient. But, undoubtedly, if no advertising would be done, or could be done that would be a saving in the expense; but, what the consequent result would be in business is not for either me or you to say, I suggest. We cannot estimate it.

Mr. CRESTOHL: And if no salaries were paid to the directors we would have a further saving.

Mr. MICHER: We might suggest reducing a good many things by half, taxes by half and salaries of civil servants by half, and if we are going to reduce the indemnity members by half, I think we might make it a general 50 per cent reduction all around.

Mr. CRESTOHL: And also cutting the salaries of stenographers in half would be a further saving.

Mr. CAMERON (*Nanaimo*): And we might even cut lawyers' fees.

The CHAIRMAN: Gentlemen, could I interrupt this lovefest and ask you to get on with the questions?

Mr. MICHENER: Thank you, Mr. Chairman. The other point is this: there is a suggestion made, the validity of which I should like to see demonstrated, that because of this increase in advertising more people will be induced to borrow. Now the reason a person borrows money is known in his mind alone, when he applies for a loan, and he expresses it when he applies for a loan—

The WITNESS: I suppose that advertising is generally designed to increase business, is it not?

By Mr. Michener:

Q. The test in this question is what information you have on it. Are these opinions expressed to you in the course of inspections by your inspectors? Do your inspectors do more than examine the books and the staff of the companies? Do they undertake to ascertain the method of operation, or do they sit in with the lender's officials in their interviews with applicants and gain a knowledge of the state of the borrower and his needs?—A. No, our examiners do not as a rule do that at all. I may say that in my earlier days, however, in checking some of the accounts in lenders' offices I have sat next to the booths where applicants were interviewed and I have heard some of the discussions, but that was accidental rather than by design.

Q. It is not a routine part of your supervision?—A. No.

Q. So the opinion you express as to why a borrower might need money and go to a loan office to get it is drawn, in the same way as my own, from a knowledge, or possibly a lack of knowledge, of the exigencies of ordinary life?—A. To some extent, but I assume that usually a borrower has a particular need and it is only for that need he seeks a loan. The kind of advertising I have in mind is of a rather different nature—where, for example, it is suggested that if one wants to go on a vacation somewhere he might very well apply for a loan for that purpose. I think that is rather different from the need to meet a medical bill or something of that kind.

Q. It is a different kind of thing but you know as well as I do that the reasons for which people want money are unlimited; there are a great many different needs and it is not possible to draw an exact line and determine what is a legitimate need. So far as the reasons for which people want a loan and the creation of an appetite through advertising and the number of offices established I am quite unconvinced that these have any effect in increasing the amount of borrowing. As you know, the amount of instalment purchasing today has grown out of all proportion to what it was even two years ago and this increase in borrowing from personal loan companies is an aspect of that same habit which people have today of spending their future earnings. If you have any concrete evidence to place before the committee for the suggestion that the existence of these companies which provide a service also create an appetite about which there is something wrong or unhealthy or immoral I would like to hear what it is because that is the point which is referred to and it has not been demonstrated.—A. I think it is relevant to suggest that lenders might save some money by reducing advertising. I think I also suggested that their relative position would remain about the same. Actually I feel that the position of the smaller lenders, if concern is felt for them, might be improved, because I would think that the absolute volume of advertising done by the larger lenders at the present time might tend to smother the little advertising that is done by the smaller firms. I think this is a place where some money could well be saved if it is felt that the proposed rates are too restrictive.

Q. If they choose to lose their profits through unwise or unnecessary advertising that is the prerogative of the man in business.—A. If they just lost their profits, and that were the end of it, perhaps nothing more need be said, but I do not think that would be the end of it; I think the next step would be to seek a larger permissible charge to enable them to make a reasonable profit.

Q. Still, I think our task is one which requires a pretty fine discretion. The task, as I understand your evidence, is to fix an exact rate at which the efficient operator can continue in business with a reasonable profit.—A. As long as there are enough efficient operators in the land to provide adequate facilities.

Q. I know, but the object is to fix a rate which gives no margin to any but the efficient operator by the standards you have assessed as providing a reasonable profit.—A. Of course, we in the department have simply been guided by what we believed to be the main objective of parliament and of this committee 15 or 20 years ago, namely to obtain the best procurable rate for the borrower.

Q. I think that is the objective of parliament still—the objective is first to secure a business which is run in a proper manner with due regard to the interest of the borrower. The act states that that is your responsibility, and you have paid a tribute to your licensees as having done just that. Now we come to the question of the control of the rate itself, which is not an easy problem. We shall hear representations from the companies concerned, but I take it no borrowers are going to testify—

Mr. CRESTOHL: I think parliament is also concerned in preventing an invasion of the freedom of trade and when we propose that a company should only spend so much on advertising and only pay so much to its directors, I think it amounts to an infringement of the freedom of trade.

Mr. CAMERON (*Nanaimo*): I wonder if Mr. Crestohl and Mr. Michener would like to get on the stand and let us ask them some questions? It seems to me they are mistaking the purpose of the committee, and what a witness should do in front of it.

Mr. CRESTOHL: If I want to give evidence I shall ask the permission of the chairman and not depend on your decisions.

The CHAIRMAN: I think those two members are adopting an unfortunate attitude and one which until now has emanated entirely from your party.

Mr. CAMERON (*Nanaimo*): What emanated from our party?

The CHAIRMAN: The reporter will repeat what I said.

The REPORTER (*reads*):

I think those two members are adopting an unfortunate attitude and one which until now has emanated entirely from your party.

The WITNESS: May I make an observation on your comment, Mr. Crestohl?

Mr. CAMERON (*Nanaimo*): Oh no, witnesses are not allowed to.

The WITNESS: I hope it will not be taken that I am suggesting a limitation of any kind on advertising or on salaries, but I do feel that in studying the matter of what is an appropriate maximum permissible rate to be charged one must understand and ascertain as far as possible what the expenses are that are being incurred by lenders.

Mr. CRESTOHL: I realize that. I go along with that.

By Mr. Michener:

Q. I have one more question to ask. I believe that this matter was considered before a committee of the Senate and there was a newspaper report which I would like to draw to your attention. I want to ask whether what you said there does express your attitude—it follows on what Mr. Crestohl had to say—and one thing I have felt about the office of superintendent—

Mr. REGIER: On a point of order Mr. Chairman. I believe we are discussing Mr. MacGregor's report and not something that happened before the committee of the other place. Unless this has a direct relationship with Mr. MacGregor's report I maintain it is entirely out of order.

Mr. MICHENER: It is customary to hear the question before raising a point of order.

Mr. CAMERON (*Nanaimo*): We have heard so many of your questions and they are all the same kind.

Mr. MICHENER: I will come to the question. It was a report of an opinion expressed by Mr. MacGregor that there are too many companies in the business at the present time, and I wonder whether that was an accurate account of the view taken by Mr. MacGregor of the small loans field under his jurisdiction. The report I have mentioned it was printed in the *Globe and Mail*—the opinion you are alleged to have expressed.

The WITNESS: Well, I think I know the report to which you are referring and I can only say I am afraid there were a good many inaccuracies in that report. Unfortunately there was no verbatim record made of the proceedings, but some of the inaccuracies will be obvious to you because even in the reference to the present bill the rates mentioned there are inaccurate. I felt compelled—

Mr. PHILPOTT: On a point of order, Mr. Chairman, I think the witness has been on the stand for several days giving us the most complete cooperation and he has answered our questions at great length. I do not think he should be cross examined on some hypothetical thing, he is alleged to have said.

The WITNESS: As I say, I felt compelled to correct the inaccuracies that appeared in it.

Mr. MICHENER: I am glad to have your answer. The relevance of this, Mr. Chairman, is that we are asked to approve a reduction in the rates which obviously will have the effect of reducing the number of lenders in the business and if the Superintendent of Insurance feels that there are too many lenders in the business that is a material consideration.

The CHAIRMAN: Is that a suggestion or a question, Mr. Michener?

Mr. MICHENER: That is a question, unless I take Mr. MacGregor's answer to mean that he was not accurately reported, in which case I will leave it there.

The WITNESS: I would rather answer by saying that the increasing number of applications for licences and the increasing evidence of interest manifested in the field by additional external operators has given us some concern within the last two years especially during the past year and my personal opinion is that the lending facilities will become excessive if this carries on. The trend is in that direction.

Mr. MICHENER: That concludes my questions and I want to thank Mr. MacGregor for his willingness to meet all these questions and deal with them.

Mr. FOLLWELL: Mr. Michener asked quite a number of questions and opened up several fields for discussion. There was one matter which I wanted to pursue further before Mr. MacGregor rose, however, and that was with regard to insurance coverage. A great deal has been said about this but I would like to know how this insurance coverage is handled. Is a regular insurance policy issued for each loan and given to the borrower?

The WITNESS: If there is a group contract entered into between the insurance company and the lender then a certificate or notice is customarily issued to the borrower indicating the extent of his coverage.

By Mr. Follwell:

Q. Would it become part and parcel of the conditions of the loan? I take it it is not part of the contract but that it is something additional, in the same way as a man might buy an insurance policy to cover his automobile or his home.—A. It might be or it might not. It would depend on how it was arranged. It could be a collateral contract. It would more likely be a collateral contract if it were arranged on an individual basis in which case there would be an individual contract between the insurance company and the borrower. Usually, the coverage is in fact exactly equal to the outstanding balance of the loan, and in those circumstances it becomes, in a practical sense at least, a collateral document to the loan agreement. The coverage is directly related to the loan.

Q. Does the loan company, then, which gives a loan of \$500 arrange a policy of \$500 to cover that?—A. Five hundred dollars or the residual balance outstanding on the loan until it is fully paid.

Q. The insurance coverage would be reduced as the loan was paid?—A. It ought to be. That is the usual arrangement under group creditor schemes.

Q. If this is arranged as a separate item, does a borrower pay for a \$500 insurance coverage when he gets the \$500 loan for the full period of repayment?—A. That touches one of the abuses that I mentioned as having arisen in the United States where excessive coverage is paid for by the borrower; in some cases he did not even know what his coverage was. Ordinarily if insurance is arranged under a group creditor policy, the coverage is exactly equal to the outstanding balance of the loan, but in schemes of that kind arranged in Canada today by the seven lenders I mentioned the whole of the cost is absorbed by the lender so there is no question of the borrower paying any specific additional amount at all for an insurance premium as such.

Q. Did I understand you correctly as saying there were no loan companies in Canada which are now charging an additional amount for insurance coverage?—A. There are two small ones which had such arrangements in 1939 and we have left these undisturbed, though with some concern. I must admit that we have felt some uncertainty whether to permit those arrangements to continue. As I say, there are only two, both being relatively small lenders.

Q. Are the loan companies permitted to carry their own insurance and to charge a fee for doing so?—A. I think not. I think there is some doubt as to the position but our view is that they ought not to do so under the present legislation and the purpose of the amendment would be to remove any doubt in that respect.

Q. Are any loan companies at the present time carrying their own insurance and charging a fee for doing so?

Mr. FULTON: You mean putting the fee into their own pockets and saying they are carrying the insurance risk—in other words, gambling on it?

The WITNESS: I do not think so.

By Mr. Follwell:

Q. In regard to advertising, I think you said that the larger companies would be doing so much advertising that what advertising the smaller companies might do might very well be ineffective. Did I understand you to say that?—A. I had in mind that if the absolute volume were reduced it might benefit the smaller lenders if it had any effect in a relative way.

Q. I always found when I was in business that when business was not too good or when you were meeting difficult competition you had to advertise a little more. Would that not follow in this business? If the large companies do considerable advertising or begin to take business, might not the smaller companies have to do more advertising of necessity, with the result that their advertising expenses would increase?—A. That probably would be the case, but they are the ones who could least afford to do more advertising because they have a narrower margin as it is.

Q. You said, "In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made." That is on page 19, at the end of the second paragraph. I might read it again—and I must ask the indulgence of the committee, because I will admit that I did miss one meeting of the committee, and it is quite probable that I missed this particular section. As a matter of fact I did. However, Mr. MacGregor, you said, "In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made." Does this suggest or does it not suggest that when a borrower goes and gets a loan on account of mismanagement that the losses might tend to increase? The chap is already a mismanager and he gets more money to play with. Would you say that the losses would then—eventually they must finalize and the proportion of loans would increase.—A. I think it is always a possibility, Mr. Follwell, but I really believe experience alone will show whether losses are going to be heavier or not. There is no evidence, up to date, of any seriously high level of losses. I made that comment partly because some of the lenders advertise that if your monthly instalments now for goods bought on time are onerous that perhaps a loan would help to ease the pressure and spread them out. I have received circulars myself to that effect. This, I think, suggests that some folk become over-committed in buying things on time, and then they come to the small loans companies—in fact they are invited to—to ease the pressure.

I think it is mismanagement when people buy so much on time that they cannot carry the monthly payments, and then must seek relief through a loan to spread them out further. And I also had in mind in making that statement the trend toward larger and larger loans, and the high proportion of current and repeat borrowers who are coming back all the time for another loan, usually a larger loan. Those were the main thoughts I had in mind in making that statement.

Q. But, Mr. MacGregor, that is actually your opinion in the brief. You are not suggesting that the government—you are not saying that the government are saying that people mismanage their funds—or are you?—A. Perhaps I misunderstood your question.

Q. When you say that this is mismanagement, that is your opinion?—A. Yes.

Q. Not as an opinion of the government that people are mismanaging their funds?—A. This is my purely personal opinion.

By the Chairman:

Q. Mr. MacGregor, the thought did occur to me when I read that, that there was a certain inconsistency; you give as your opinion that mismanagement of personal finances seemed to underly the greater proportion of loans made. And at the same time you point out that the percentage of loss is phenomenally low, less than half of one per cent. It did strike me at the time that mismanagement—if these loans are the result of mismanagement, then why are the losses so exceedingly low in the small loans business? I am sorry to intrude myself on the proceedings of the committee, but that thought has

occurred to me all through this.—A. Well, I suppose the beneficial advice that the lenders give to these people results in re-establishing their finances on a sounder basis.

By Mr. Hamilton (York West):

Q. Would it mean that the evil day of accounting is to be postponed always by taking out new loans in larger amounts?—A. It is possible; they are spreading out their burden into the longer future, in many cases.

Q. But we might reach the stage where there could be a crisis of some kind arise when they had over-stretched themselves with the new loan?

The CHAIRMAN: You mean that the day of reckoning is coming!

The WITNESS: Yes, but the lenders have some reserves built up against that rainy day. They maintain reserves about equal to 3 per cent of the balances on their books which, at the present rate of loss, is about six times the annual losses suffered.

Q. The companies might be all right, but the borrowers might not be.

Mr. HENDERSON: Table 7, which has been discussed—

The CHAIRMAN: Mr. Henderson, do you mind if we complete Mr. Follwell's questioning?

By Mr. Follwell:

Q. When you suggest that loans are being made to some people at the interest rate of 80 per cent per annum, that this is mismanagement on the part of the borrower— —A. No, I am not. And the practice of that lender is not generally to make loans at that rate. As I mentioned before, that was an isolated instance.

Q. I was interested in asking Mr. MacGregor, Mr. Chairman, if he could give us an idea as to how he arrived at setting rates. How do you make up your mind about what a rate should be, and what factor you take into account?

Mr. CAMERON (*Nanaimo*): He has a crystal ball, and consults astrologers!

The WITNESS: I do not think one could suggest a maximum rate based upon any single approach when there are so many lenders in so many different circumstances. Some are large and some are small. I think one must have regard for several criteria, some of which are more appropriate for larger lenders than for smaller lenders. As I said, it may be more appropriate to gauge the earning capacity of the larger lenders, having regard to the funds employed. But I do think for the smaller lenders, it is more appropriate to have regard for the equity capital or proprietary interest in his business. These proposed rates admittedly involve relatively small margins, but there is some reasonable margin in them, both for larger lenders and small lenders.

Of course, there is another factor, that of income tax. Income tax is a most important feature, and it is much more important—or, rather, the impact of income tax is much less on the smaller lender than on the bigger lender.

In the case of the smaller lender, as you know, the first \$20,000 of taxable income is subject to taxation at only 20 per cent, and a large proportion of the small lenders are in positions where all or most of their taxable income falls in that low income tax bracket. Most of them are in that position.

So that, the impact of taxation is less severe on the smaller lender than on the bigger lender. But in the case of the bigger lender, \$20,000 is of no material importance to him. Most of his profits, most of his taxable income is taxed at the higher corporate rate of 47 per cent. So that even though the margins may appear to be relatively smaller for the smaller lender, there is some relief when one has regard for the lighter tax burden that he bears.

By Mr. Follwell:

Q. You are suggesting that because he does not make as much money then, naturally, under our basis of taxation he does not pay as much tax?—A. He not only does not pay as much tax, but he is taxed at a lower rate.

Q. Yes, I mean that; he does not pay as much tax because he has a lower rate?—A. Yes, relatively the burden is lighter.

Q. Do you take into consideration the matter of all the expenses of maintaining the office and whether or not it is an office that is in a large urban center, or in a smaller center, such as a village or a town?—A. It is hardly practicable to take features of that kind into account in suggesting a maximum permissible rate applicable to lenders of all kinds in all sorts of situations.

As I have suggested in the brief, some lenders might withdraw under these proposed rates. Some higher maximum permissible rate than that proposed would be necessary if it is desired to retain all or practically all the lenders who are now licensed.

Q. What you are saying is that under these proposed rates it is quite probable that the larger companies would be able to carry on and make a reasonable profit but, by the same token, smaller companies would probably go out of business?—A. I think some of the smaller ones might withdraw, but by no means all of them.

Q. Just the small, small ones.

Mr. CRESTHOL: It depends upon—

The WITNESS: Not necessarily the smallest. One of the smallest companies has operated at 1.8 per cent or less than that ever since it was licensed in 1939—I mentioned it in the notes.

Mr. CRESTOHL: Would your suggestion of ingenuity come into play at this point?

By Mr. Follwell:

Q. Mr. MacGregor, what would you estimate as the percentage reduction of net profit if we had this bill in effect for 1955, let us say—what percentage would the companies have had as a reduction of net profit?—A. I have estimated that the "all others" group, excluding the relatively new licensees that operated at a loss in 1954 and 1955 would have had a net return on equity capital of approximately 6 per cent—that is the rate I mentioned. In 1955 they had an actual return of 11.7 per cent. I show 2.9 per cent opposite "all others in table 9"; but in the footnote I explain that by the exclusion of those recent licensees that operated at a loss the rate would have been 11.7. So I guess in answer to your question the reduction would be from 11.7 to approximately 6 per cent.

Q. And then it would be almost cut in half, is that right?—A. Pretty nearly, although I think my 6 per cent is, again, on the conservative side. It may be nearer 7 than 6, but I stated about 6 per cent.

Q. You, for instance, would arrive at that estimate—what factors would you take into consideration? Would it be the number of loans?—A. I took into account the distribution of their business by amounts—that is to say the volume below \$500 and the pattern of the loans between \$500 and \$1,000 and \$1,500, and the proportion of loans above \$1,500. I assumed reductions of the order that I mentioned, applicable to each particular range, making no reduction for conditional sale agreements and no reduction for loans over \$1,500, a 5 per cent reduction in income from small loans under \$500, and 24 per cent and 38 per cent for loans between \$500 and \$1,000 and \$1,000 and \$1,500 respectively.

Q. Then, what you would have to know is how much money they have out at 2 per cent and how much they have out at $1\frac{1}{2}$ per cent?—A. That is not difficult, because most of them charge 2 per cent, and we have information about the rates charged by each licensee, or practically every licensee.

The CHAIRMAN: Gentlemen, at this point may I ask Mr. Cawker if he would try to line up the order of the witnesses for the Canadian Consumer Loans Association? I understand that you have Mr. F. S. Picard, who will give evidence in French. Would you try to give us some idea of the order in which he will come in your evidence, so that we can have an interpreter here.

Then, also, gentlemen, when we finish the evidence of Mr. Varcoe,—and I assume that will be at the next meeting—I wonder if you would bring along the brief that was furnished to you by the Canadian Consumer Loans Association, because those briefs are in short supply, and we have had them distributed to everybody. I would be obliged if you would do that.

Then, incidentally, subject to any change of plan that may be decided by the committee tonight, the next meeting will be at 3.30 on Thursday. We have not quite finished. We have five minutes to go; have you finished, Mr. Follwell?

Mr. FOLLWELL: I have another question Mr. Chairman.

The CHAIRMAN: I am sorry to interrupt you.

By Mr. Follwell:

Q. It is perfectly all right, Mr. Chairman. Mr. MacGregor would the proposed rates result in some reduction in income for a company with most of its money in loans above \$500 as compared with a company with most of its loans below \$500?—A. Yes, the impact would be more severe for lenders with a larger proportion of business between \$500 and \$1500. The impact is more serious for loans of lenders in the “all others” group, because they have a larger proportion of their business in that area.

Q. Then the company that loans over \$500 would probably feel it a little bit more than the company with all their loans, or most of their loans, under \$500?—A. Yes.

The CHAIRMAN: Does that exhaust you Mr. Follwell?

Mr. FOLLWELL: It does not exhaust me, Mr. Hunter, but I assume the witness will be here on another occasion?

The CHAIRMAN: We have several more people we wish to question. If you are through for the time being, Mr. Cameron, you have a few minutes.

Mr. CAMERON (*Nanaimo*): Yes, I suppose I have a few minutes, Mr. Chairman. Remarkable! I do not know what you were referring to just now, Mr. Hunter, about something having emanated from this party in reference to the cross-talk that we had between Messrs. Crestohl and Michener. I have no recollection of any members of our party being engaged in that. But, what I did evidence, and recall, sir, is the continual studied insolence from the chairman directed to members of this party.

The CHAIRMAN: You should be careful Mr. Cameron; you might break my heart!

Mr. CAMERON (*Nanaimo*): Oh, yes. I am not concerned about your insolence, because I realize you cannot help it. But, what I am concerned about is the evident determination of certain members of this committee to prevent this bill being reported out of the committee.

Some hon. MEMBERS: Hear, hear.

Mr. MICHENER: Do not talk nonsense.

Mr. CAMERON (*Nanaimo*): I might commend Mr. Michener on the remarkable way in which he has been able to maintain his detached view, in spite of having a pecuniary interest in one of the firms that is under the control of Mr. MacGregor.

Mr. MICHENER: Do not talk nonsense. I have no pecuniary interest in any firm that is under investigation.

Mr. CAMERON (*Nanaimo*): You are a director of a company which is fully owned by one of the firms under Mr. MacGregor's control.

Mr. MICHENER: That is not true, but I have no pecuniary interest in any company under consideration.

The CHAIRMAN: Just a minute, Mr. Cameron. I just want to know what you are trying to do here?

Mr. CAMERON (*Nanaimo*): I am trying to do this, Mr. Chairman: I would like to know just how much longer we are to go on fooling around this way. Do we want to get this bill reported?

Mr. REGIER: No.

Mr. CAMERON (*Nanaimo*): Or have we decided we are not going to? Are we going to have more of this nonsense, this continued repetition of the same questions over and over and over again; the same line of inquiry pursued for the sole purpose of expending time?

The CHAIRMAN: Mr. Cameron, if you are just going to make a speech—

Mr. CAMERON (*Nanaimo*): Yes, I am going to make a speech.

The CHAIRMAN: —I am going to rule you out of order.

Mr. CAMERON (*Nanaimo*): Rule away, because it does not bother me what you do. I am going to tell you this—

The CHAIRMAN: Order.

Mr. CAMERON (*Nanaimo*): —that the people of Canada—

The CHAIRMAN: You are out of order. I rule you are out of order, if you are just making a speech.

Mr. CAMERON (*Nanaimo*): Rule away, rule away!

Mr. REGIER: You may as well rule on behalf of the finance companies right now.

The CHAIRMAN: I am not ruling on behalf of the finance companies.

Mr. CAMERON (*Nanaimo*): I am here to see that the unfortunate people getting into the clutches of these disreputable people are in some way protected, and other people seem to be determined to protect the rights of these thieves.

The CHAIRMAN: That is a very interesting statement, Mr. Cameron, but it is based on your views, and has no foundation in fact, as far as I know.

Mr. CAMERON (*Nanaimo*): I know. Your opinion is not of any value.

Mr. MICHENER: Mr. Chairman, I would like to ask Mr. Cameron to withdraw the imputation that my remarks were motivated by anything other than an interest in getting the facts before this committee.

Mr. CAMERON (*Nanaimo*): I do not intend to withdraw anything, because it has been perfectly obvious to anyone with any common sense.

I would like at this point, Mr. Chairman, to pay tribute to another member of this committee, who has had the decency and propriety to stay away from the hearings concerning an institution of which he has been a director: the honourable member for St. Lawrence-St. George who has kept away from these hearings. I think that is something to be commended.

I will withdraw nothing.

Mr. MICHENER: Mr. Chairman, in view of the statement that Mr. Cameron has made, I would like the committee to understand clearly what my position is. I am a director of the Trans Canada—not Trans Canada, the Traders Finance Corporation Limited, which is a company engaged in acceptance business, and has no licence, or any connection with the small loans business. It owns a company known as the Trans Canada, which is engaged in the personal loan business. I have no interest in that company, and I have no part in its operation. That is my position. I have been interested in these proceedings from that point of view, as well as from the point of view of a member of the public, just as any man, who is a farmer, is interested in farmer legislation, and is entitled to discuss it. I have felt it my right to be here and to discuss

these matters in a proper way. I resent the allegation made by Mr. Cameron, and I think that he ought to withdraw it.

The CHAIRMAN: Mr. Michener, it may appear to Mr. Cameron that you may be in breach of some fiduciary relationship, but I know of nothing illegal about it, and it is entirely a matter of your conscience, just the way it might be with Mr. Cameron if he were engaged to study a bill affecting his profession or occupation, or had reference to his profession or occupation. I do not propose to do anything about that and I really do not see that it is any of the honourable gentleman's business, frankly.

Mr. REGIER: Mr. Chairman, since you added that, I would also like to speak to the point of order for a moment. I do not think that anyone, who has a personal holding in any of these companies, or anyone acting as a director for any of these companies, or any merchant who has any dealing in time sales of appliances, or otherwise, has any right to be a member of this committee and to vote in this committee and to take part in the discussion.

The CHAIRMAN: We might pursue that further, Mr. Regier. Do you think anybody who has a loan from a loan company should have any right to speak on this committee?

Mr. REGIER: Yes, Mr. Chairman, because that is less of a direct interest. That member is part of the general public at large, and the members of this committee are here to look after the interest of the general public at large.

The CHAIRMAN: It seems to me it is quite obvious that anyone who had a loan from a loan company, and sitting on this committee would have a personal interest in having the interest rates reduced.

Mr. FULTON: Mr. Chairman, Mr. Regier has said this is raised as a point of order. It seems to me, therefore, that if he means that, and if he and Mr. Cameron are serious, and it is a serious point, that we have not heard any authority cited on which they base their position. I wonder if we could discuss it without heat for a moment? Mr. Michener has made a complete declaration of his position. I should think that if the matter is going to be pressed, and not withdrawn, then certainly some authority should be cited upon which they base their position. I would ask them to consider whether in that case they should not go before the agriculture committee and suggest that one of their colleagues, who is a substantial rancher or farmer in one of the prairie provinces, has not got a direct interest in the matter being discussed in that committee now. I would not go there and raise that point, and say that he has no right to express his opinion or vote on the matters there. I suggest that unless they have some direct authority upon which they base their present proposition, they should not have raised the question with regard to Mr. Michener. If that is a reasonable point of view, then it is surely reasonable to suggest that they might consider withdrawing. I am not asking for a formal withdrawal, but, let us say, whatever action they care to take. But, if they are going to press it and raise it as a point of order, then I think that they cannot do anything else then until they show some authority for it.

The CHAIRMAN: That is up to those honourable members. If they wish to make accusations of that sort, I simply rule that they are out of order. I do not think they are in order, and I do not think there is a person who would hold them to be in order. I think it is entirely a matter of personal conscience of the honourable members concerned. If a farmer from their own party sits on the Agricultural Committee, that is a matter for his personal conscience, just as if Mr. Michener sits on this committee and has an interest in some other company that has some relation to the legislation. I do not think it is in order, and I so rule.

This meeting is adjourned. Will the agenda committee please stay for a few minutes?

APPENDIX "A"

STATEMENT ON THE SMALL LOANS ACT

by

Mr. R. K. MacGregor, Superintendent of Insurance

Notes: Examination of Mr. MacGregor on the statement is recorded in Issues Nos. 13 to 18 of the Minutes of Evidence, June 28 to July 17, 1956.

The tables referred to in the statement are at Appendices "A" to "I" to Issue No. 13, following page 455.

The practice of money-lending on personal security is of such long standing that one might suppose that all problems and questions concerning it would have long since been settled. However, its social and economic aspects are so broad that complete settlement will probably never be reached. This practice, which had its origin centuries ago in simple and diverse ways, has now grown into a well-organized and well-established industry. But changing times bring changed conditions and the principal change recently has been the increasing number of borrowers seeking ever larger loans. At the same time, there has been an obvious reluctance on the part of lenders to reduce the scale of charges for the larger loans. The small loans business is, in fact, no longer small—it has become a multi-million dollar business with some lenders having branches spread across the country comparable in number with the chartered banks and large chain stores. Experience has demonstrated that some persons must borrow sometimes, that other persons will borrow whether necessary or not, that other credit facilities have not been sufficiently broad to meet the borrowing desires of society, and that a regulated small loans industry is far preferable to unregulated lending on personal security.

It may not be necessary but it may nevertheless be of some value to review briefly the background of this particular kind of business in Canada before dealing with the present situation and the bill now before the committee.

In Canada, the earliest legislation relating to interest, usury and money-lending was the Act 17 Geo. III, 1777, Cap. III, being an Ordinance for ascertaining damages on protested Bills of Exchange and fixing the rate of interest in the province of Quebec. Section V of this act fixed the maximum rate at 6 per cent per annum for all contracts, the imposition of a higher rate resulting in voidance of the contract as well as other severe penalties.

A similar provision was included in an act passed in Upper Canada in 1811, 51 Geo. III, Cap. IX.

In 1853, both of the foregoing provisions were repealed by the Act 16 Vict. c. LXXX of the legislature of the former province of Canada. This act, although less severe in some respects, contained a provision that every contract shall be void so far, and so far only, as relates to any excess of interest thereby made payable above the rate of six pounds for the forbearance of one hundred pounds for a year, and the said rate of six per cent interest, or such lower rate of interest as may have been agreed upon, shall be allowed and recovered in all cases where it is the agreement of the parties that interest shall be paid.

A later act in 1858, 22 Vict. c. LXXXV, authorized the contracting parties to agree upon any rate of interest but fixed 6 per cent as the interest payable where no rate was stipulated by the parties or by the law. This was the origin of present sections 2 and 3 of the Interest Act.

By section 91 of the B.N.A. Act, the subject of interest was specifically allocated to the Dominion. Several acts were consequently passed by parliament in 1873 (chapter 70, relating to interest in the provinces of Ontario and Quebec and chapter 71 relating to Nova Scotia), 1875 (chapter 18, relating to

New Brunswick), 1880 (chapter 42, relating to interest on mortgages), and 1886 (chapter 44, relating to British Columbia), which, together with certain provisions of the acts of Prince Edward Island of 1869, were consolidated in chapter 127 of the Revised Statutes of 1886, An Act respecting Interest.

In 1897, a bill was introduced by Sir Oliver Mowat providing that where the rate of interest under any contract exceeded 8 per cent per annum the court should have discretion to declare the contract unenforceable. The bill was designed to prevent abuses such as a case cited where interest at 5 per cent per day had been provided for and judgment for recovery obtained. The bill was drastically revised in committee and emerged as chapter 8 of the statutes of 1897, which contains the originals of sections 4 and 5 of the present Interest Act, namely, a provision that only 5 per cent per annum can be recovered under a contract providing for interest at shorter intervals than yearly unless the contract expressly states the yearly equivalent of the periodical rate, and a provision for the recovery of any excess interest paid.

Up to this point, the legislation was not specifically framed for the protection of small borrowers on personal security and was inadequate for this purpose. Nevertheless it was known that unduly high rates were being charged on personal loans and the situation was generally unsatisfactory. At the session of parliament in 1899 Senator Dandurand introduced a Bill entitled An Act respecting Usury, which fixed a limit of 20 per cent per annum on any loan. In discussion in committee, the bill was amended to apply only to loans of \$500 or less. Its application was also limited to loans by a "money-lender", who was defined as one

Who carries on the business of money lending or advertises or announces himself, or holds himself out in any way, as carrying on that business and makes a practice of lending money at a higher rate than ten per centum per annum, but does not include a pawn broker as such.

This definition may be regarded as the original of the definition of "money lender" in section 2 of the present Money-Lenders Act. This bill was not enacted in 1899 but was revived and passed, with certain amendments, as the Money-Lenders Act in 1906, the maximum rate of 20 per cent per annum being unfortunately replaced by the rather ambiguous and uncertain references to 12 per cent found in sections 6 and 7.

It might be interesting to observe here that the Money-Lenders Act in Great Britain came into existence in 1900 following intensive study in the immediately preceding years and the credit union movement on this continent also had its birth during this period. The first Caisse Populaire was founded by Alphonse Desjardins at Levis, Quebec, in 1900, partly because of the high interest rates then prevailing on small loans and partly because of the lack of facilities for obtaining them at any price. Mr. Desjardins was at one time a parliamentary reporter and his brother was for several years Deputy Minister of Public Works.

The Money-Lenders Act was conceived in good intentions but over the years proved to be quite ineffective. Its main defect lay in the fact that "interest" was not defined and could not be held to include ancillary expenses, especially in view of the conflicting references to 12 per cent for interest alone in section 6 and to 12 per cent for both interest and expenses in section 7. Other reasons for its ineffectiveness were that no licensing or supervision of money-lenders was required, no one was charged with the responsibility of enforcing its terms, and borrowers were reluctant to incur the publicity and expense of taking remedial action themselves.

The result was that even though the Interest Act had been on the statute books in one form or another since before confederation and the Money-Lenders Act since 1906, the business of money-lending in Canada was for all practical purposes unregulated during the first quarter, or more, of the present

century. Sporadic evidence of exorbitant charges began to appear more frequently and complaints multiplied. Much began to be heard of the "loan shark" in the daily press, magazines, moving pictures, etc. One or two Dominion companies incorporated under the Companies Act were in the field but the great bulk of the business was carried on by provincially-incorporated companies, partnerships and individuals. Annual statements were not generally required to be published or filed; hence it was practically impossible to determine how many lenders were operating or the extent or nature of their operations.

Conditions in the personal loan field in the U.S.A. had likewise been unsatisfactory during the early part of this century but even before the first great war the Russell Sage Foundation had begun its work in an effort to find a solution to the problem of the necessitous borrower lacking the customary forms of security acceptable to banks, etc. The earliest attempts to solve the problem through loans made available by philanthropic agencies and the remedial loan societies proved inadequate and the conclusion was soon reached that the best solution would be by way of legislation specifically designed for this particular kind of business, legislation that would authorize adequate charges to assure the necessary facilities yet be the fairest possible to borrowers. This conclusion led to the drafting of a model bill in 1916 that subsequently became known as the Uniform Small Loan Law, including the requirement that interest and charges should be expressed as an all-inclusive rate per month not exceeding a stipulated maximum percentage of the balance of the loan outstanding from time to time, provision for licensing and supervision of lenders by the state and for severe penalties for infractions of the law. This Uniform Law was enacted in substantially the same form, but with various maximum rates, by one state after another so that at the present time such laws are in force in nearly every state.

In Canada, it may be said that regulation began in a limited way in 1928 with the incorporation of the first so-called small loans company, the Central Finance Corporation (now the Household Finance Corporation of Canada), by a special act of parliament (chapter 77). This act authorized the company to lend on personal security, subject to maximum charges as follows:

Interest—

- (i) Loans up to \$500, 6 per cent per annum in advance
- (ii) Loans over \$500, 7 per cent per annum in advance

Expenses—

- (i) Loans up to \$100, 1 per cent per annum in advance
- (ii) Loans of \$100 to \$300, 1½ per cent per annum in advance
- (iii) Loans over \$300, 2 per cent per annum in advance

Since all of these charges could be deducted in advance, the actual nominal annual rate was about double the apparent rate, being roughly 14 per cent for a loan of \$100 and 16 per cent for a loan of \$500. As there was no general act in force at that time providing for supervision of companies of this kind, the Central Finance Corporation was made subject to the Loan Companies Act, with certain exceptions, and the power to take money from the public either on deposit or by the sale of debentures was withheld.

Within the year following incorporation, the company claimed that it could not operate on the scale of charges in its act and in 1929 sought and obtained amendments authorizing charges of 7 per cent and 2 per cent in advance for interest and expenses, respectively, on all loans plus, in the case of a loan secured by a chattel mortgage, "an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan but not exceeding the sum of ten dollars". Obviously, the allowance of \$10 for chattel mortgages provided a very much larger percentage margin on the smaller loans and when the maximum permissible charges of all kinds

were levied, the equivalent effective monthly rate varied from 5.71 per cent for a \$50 loan repayable in twelve equal monthly instalments to 1.84 per cent for a similar \$500 loan. This scale of charges is of special interest because it formed the basis of the general pattern followed by this and other similar companies for the next ten years, and also because it pointed up some of the difficulties of enforcing limitations expressed in this way.

In 1930, the second small loans company was incorporated by parliament (chapter 68), being the Industrial Loan and Finance Corporation (now the Community Finance Corporation), with essentially the same powers as contained in the act of Central Finance as amended in 1929. In 1932, control of the Central Finance Corporation was acquired by U.S. interests. This was followed by the incorporation of a third small loans company in 1933 (chapter 63), the Discount and Loan Corporation of Canada (now the Personal Finance Company of Canada), which was also backed by U.S. interests. The following additional small loans companies have been incorporated by special acts of parliament but none except the Canadian Acceptance Company ever organized or commenced business:

	Chapter No.	Year
The People's Thrift Corporation	80	1928—Expired
Personal Finance Corporation	69	1934—Expired
The Small Loan Company of Canada ..	72	1934—Expired
Canadian Acceptance Company	82	1946
Rinker Finance Corporation	89	1948—Expired

The complicated scale of maximum charges in the special acts of the three companies transacting business in the early thirties made it very difficult, if not impossible, for borrowers to understand the effective rate involved and it bore with undue severity on the very small borrower. Another difficulty arose through the tendency to charge borrowers the maximum \$10 fee for chattel mortgages whether disbursements were actually made or not; in one case, a sister company was incorporated to which was paid as a "disbursement" the entire chattel mortgage fee and expense charge received from the borrower. Experience pointed to the desirability of a flat percentage charge monthly on the balance of principal outstanding, in place of the complicated scale authorized, and the first step in this direction was taken in 1934 when, by an amendment to the Loan Companies Act (chapter 56) an overriding ceiling of 2½ per cent per month was placed on all charges by companies "incorporated or authorized by or under any act of the parliament of Canada and having power by virtue of any such act to make loans of any nature or kind". The amendment thus applied not only to the three special act companies but also to the few other Dominion companies incorporated by letters patent under the Companies Act that were engaged in the small loans business.

The effect of the latter amendment, so far as Dominion companies incorporated by letters patent were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans; and the effect, so far as small loans companies were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans up to \$181.20, repayable in twelve equal monthly

instalments, the effective rate for larger loans decreasing gradually to 1·84 per cent at \$500, as follows:

Amount	Monthly Rate for Interest and Expense	Additional Chattel Mortgage Fee	Equivalent total Monthly Rate
\$ 50.00	1·48%	\$ 2.76	2·50%
100.00	1·48	5.52	2·50
150.00	1·48	8.28	2·50
181.20	1·48	10.00	2·50
200.00	1·48	10.00	2·40
300.00	1·48	10.00	2·09
400.00	1·48	10.00	1·93
500.00	1·48	10.00	1·84

The situation in the early thirties, therefore, was that Dominion companies were limited in their charges whereas other lenders were not. Moreover, the chattel mortgage fee was authorized only for disbursements actually made and one of the three Dominion small loans companies was operating mainly in the province of Quebec where lending on the security of a chattel mortgage was impracticable since the civil code of that province required physical possession of the chattels to be taken by the creditor in order that the pledge be effective. As a consequence, this company was limited to a charge of 7 per cent for interest and 2 per cent for expenses, both in advance, as respects most of its business, such charge being equivalent to a monthly rate of only 1·48 per cent. This company felt that its position was unfavorable in comparison with the other two companies operating mainly in the province of Ontario, but it supplemented its revenue by requiring borrowers to insure their lives to the extent of their loans through the agency of the company, the premiums and the commissions being established at relatively high levels. Further questions arose concerning the propriety of charging chattel mortgage fees to borrowers again when loans were refinanced, and there were complications involving refunds when loans were refinanced or prepaid by reason of the fact that charges were all deducted in advance. The entire situation continued to be unsatisfactory from almost every point of view.

By 1934, representatives of the small loans companies agreed at a meeting in the department that the practice of deducting charges in advance should be abandoned in favor of a simple monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time; by this time, too, the need for more effective general legislation governing the small loans business was becoming more and more apparent.

The whole subject engaged the attention of parliament practically every year during the thirties and was dealt with at each session from 1936 to 1939.

In 1936, bills to incorporate three new small loans companies (the Domestic Finance Corporation, the United Credit Association and the Atlantic Loan and Finance Corporation) were introduced but were not preceded with pending further consideration of general legislation. In that year, a special sub-committee of the Banking and Commerce Committee of the Senate, to which the three private bills had been referred, gave much attention to the whole problem and recommended general legislation based on the principle of a flat monthly rate on outstanding monthly balances but left the rate to be determined by the full committee. The first decision of the latter established the rate of 2½ per cent per month for loans up to \$100 and 2 per cent per month for larger loans. However, representatives of certain provincially-incorporated companies contended that such rates would be insufficient to permit them to continue in business. The Committee then decided upon a rate of 2½ per cent

per month on loan balances of \$300 or less and 1 per cent per month on loan balances above \$300, payments to be applied first to the repayment of the element bearing $2\frac{1}{2}$ per cent. The following summary compares the rates then permitted by the special acts of the three small loans companies with the rates established by the committee:

Effective Monthly Rate Permitted by

Amount of Loan	Special Acts	First Decision	Second Decision
\$100	2.50%	2.50%	2.50%
200	2.40	2.00	2.50
300	2.09	2.00	2.50
400	1.93	2.00	1.87
500	1.84	2.00	1.57

The draft bill with the final rates shown above was recommended to the government as a basis for general legislation but no action was taken, one of the main reasons being that the proposed rates exceeded the rates then being charged for the bulk of the loans made by the three small loans companies.

Perhaps I might mention here that it was at this time, 1936, that the Canadian Bank of Commerce inaugurated its personal loan department.

In 1937, two of the three small loans companies introduced bills mainly for the purpose of substituting a more satisfactory scale of charges than they had in their special acts. In one bill, a flat rate of $2\frac{1}{4}$ per cent per month was proposed and, in the other, 2 per cent; later in the same session, the $2\frac{1}{4}$ per cent rate in the former was voluntarily reduced to 2 per cent also. The view of the department was that a rate of 2 per cent was appropriate as an upper limit for all lenders but this was opposed by the third small loans company and by some provincially-incorporated lenders who claimed that they could not operate at that level; rates of 3 per cent per month and even $3\frac{1}{2}$ per cent, at least for the smaller loans, were said to be essential. Both of these bills were reported favorably by the Banking and Commerce Committee of the house but no further action was taken. The committee gave lengthy consideration to the whole problem and the prevailing thought was that the question of appropriate general legislation was of paramount importance.

In 1938, the same two bills were in-introduced but were not dealt with. Instead, attention was focussed on the need of general legislation. The Banking and Commerce Committee of the house studied the problem for months and heard witness from all over Canada and several authorities from the U.S.A. The committee's final report No. 14, dated June 1, 1938, was accompanied by a draft bill entitled "An Act respecting Interest on Small Loans". A flat, all-inclusive, monthly rate of 2 per cent on outstanding balances was recommended and the scope of the bill was limited to loans of \$500 or less. The committee's final report compressed in a few pages an excellent summary of the important aspects of the entire problem, together with the reasons underlying the rate recommended. I respectfully suggest the reading of this report by everyone studying the subject of small loans. I would draw attention particularly to the stated objective of the committee throughout its deliberations and which was emphasized in its report, namely, "to secure the best procurable rate for the borrower".

Opposition to the bill (mainly to the maximum monthly charge of 2 per cent on the part of certain lenders delayed its passage but it was finally enacted in substantially the same form in 1939 as "The Small Loans Act, 1939", with effect from January 1, 1940, and has stood unchanged up to date. It is probably unnecessary to refer now to many of its provisions but perhaps attention might be directed to a few main ones.

(1) A "small loans company" is defined to mean a company incorporated by special act of parliament and authorized to lend money on promissory notes or other personal security and on chattel mortgages. In 1939 there were three such companies and there are now four.

(2) A "money-lender" is defined to mean any person other than a chartered bank who carries on the business of money-lending or advertises himself, or holds himself or itself out in any way, as carrying on that business, but does not include a registered pawnbroker. Apart from the few small loans companies, all other licensees under the act fall in this category, which mainly includes provincially-incorporated companies, although there are still a few partnerships and individuals who were in business before the act came into force. Since then, all new licensees have been companies incorporated either by the Dominion or a province. If the former, that is, by the Dominion, it is by way of a special act of parliament; if the latter, that is by the province, it is usually by way of letters patent but at least one province also requires a special act of the legislature. The distinction between a "small loans company" and a "money-lender" is thus the method of incorporation, i.e., whether by a special act of parliament or otherwise. This distinction is carried through all reports and other data published by the department.

(3) The act requires a lender to be licensed by the minister if it wishes to charge more than 12 per cent per annum (equivalent to .95 of 1 per cent per month) on a loan of \$500 or less. A "loan" is defined as one in this area but the designation "small loan" is more usual. If licensed, the maximum charge on such a loan is 2 per cent per month for terms up to 15 months; for longer terms, the maximum gradually decreases according to the formula

$$1 \text{ per cent} + \frac{15}{n} \text{ of } 1 \text{ per cent, where "n" is the term in months. This formula}$$

permits a maximum monthly charge of $1 \frac{15}{18}$ ths per cent or 1.83 per cent for a term of 18 months, 1.62 per cent for 24 months, $1 \frac{1}{50}$ per cent for 30 months, and so on, but in practice few, if any, loans of \$500 or less are made for more than 15 months. In fact, when the act was passed, the usual term was 12 months and although the act permitted the full 2 per cent to be charged on loans up to 15 months, it was not envisaged that the latter would become the standard term for loans of \$500 or less. One of the main justifications for a relatively high rate on small loans is their relatively short term; a rate that is appropriate for a short-term loan becomes excessive if continued over an unduly long term. After expiry of the term of the loan, the Act provides for a maximum charge of 12 per cent per annum on any instalments unpaid. All loans are required to be repaid in approximately equal instalments at intervals of not more than one month each.

(4) One of the basic and most important principles in the act is that the stipulated maximum charge includes all expenses and applies to the principal amount of the loan outstanding from time to time. Moreover, charges may not be compounded or deducted in advance. In other words, borrowers sign a note only for the amount of the loan actually received in cash and pay interest precisely on that amount for the actual time they have it, thus avoiding all of the problems that arise if charges are imposed when the loan is made and a refund of the unearned part is properly due the borrower in the event of refinancing or prepayment of the loan before the normal expiry date.

(5) The Superintendent of Insurance is required to inspect, at least once each year, the chief place of business of every licensee, and financial statements in prescribed form are required to be filed annually.

(6) The special Acts of the three small loans companies existing in 1939 were amended and consolidated in a schedule to the Small Loans Act so as to conform to the provisions of that act.

(7) Licensees under the act may, and most of them do, make loans over \$500 and also engage in other branches of the finance business as, for example, the purchase of conditional sale agreements from dealers, etc. These other activities are not presently regulated as to charges or otherwise by the act.

The experience of licensees under the act has been given in the successive annual reports of the department but I thought it might be helpful for present purposes to summarize the results in some respects and to analyze certain features such as expenses and earnings in greater detail than is customary. I have, therefore, prepared a special series of tables covering the more important items.

Before directing attention to certain trends and results portrayed by these tables, it might be well to comment briefly upon a few policies and practices that had a bearing on them; also, to refer to the only amendments heretofore proposed since the act was passed.

During the war and for a short time after, the granting of new licences was discontinued as a part of the plan to conserve manpower and to control credit. This accounts for the decline in the number of licensees to a minimum of 53 in 1944, at which it remained through 1946.

Concerning charges on loans, the uniform practice after the new Act came into force was to charge the maximum permissible rate of 2 per cent per month and it is rather interesting that notwithstanding the previous protests of some lenders that they would have to discontinue business at that rate the great majority were earning a satisfactory return—so much so, in fact, that significant reductions began to be made by the larger lenders late in 1943. At that time, several of them adopted a graduated rate of 2 per cent on the first \$300 of any loan plus 1 per cent on the excess, if any, over \$300—the element carrying the lower rate to be repaid first. For loans up to \$300, the effective monthly rate remained as before at 2 per cent but for a \$400 loan the rate became 1.92 per cent and, for \$500, 1.81 per cent. Perhaps it might also be pointed out that this is the main part of the new formula proposed in the present bill. By early 1945, further reductions were made. Two of the small loans companies adopted a flat rate of $1\frac{1}{2}$ per cent per month on all loans while the third such company did the same for all loans over \$300, retaining 2 per cent for loans up to \$300. The largest money-lender adopted a flat rate of $1\frac{3}{4}$ per cent on all loans. Later in 1945 one of the two small loans companies that had adopted the flat rate of $1\frac{1}{2}$ per cent on all loans raised the rate to 2 per cent on loans up to \$300 but the largest small loans company continued for some time further to charge only $1\frac{1}{2}$ per cent on all loans.

In the light of this experience, the department recommended in 1946 that the maximum rate in the act be reduced from 2 per cent per month to $1\frac{1}{2}$ per cent. Bill 140 was introduced for this purpose at the 1946 session and was given lengthy consideration by the Banking and Commerce Committee of the house of commons. However, representatives of the industry strongly opposed the measure mainly on the grounds that the great majority of lenders, more particularly the smaller ones, could not continue to operate under the lower rate and, besides, that it was uncertain with the prospect of higher expenses how long the larger ones could do so. The session ended without the bill being reported and it was not subsequently introduced again. By 1948, most lenders that had been charging less than $1\frac{3}{4}$ per cent per month had raised their rates to that level and by 1950 back again to 2 per cent. The reduced income and reduced earnings reflected in Table 1 for the period 1944 to 1950 are, of course, accounted for by the reduced rates then in effect.

Concerning expenses, it should be explained that many licensees have associated companies operating jointly or in close association with them, such companies confining their business to loans over \$500 or to the purchase of conditional sale agreements, etc., or both, thus not requiring to be licensed under the act. The results of the operations of all such associated companies are naturally not included with the data for licensees but the expenses and earnings of licensees are nevertheless affected by the accuracy with which many expenses are apportioned between the licensee on the one hand and the associated company or companies on the other. The same comment applies to the allocation of expenses within a licensee as between its small loans business and other business it may be conducting. The accurate apportionment of expenses against different classes of business is always a difficult problem and each case has to be considered individually. To a large extent, the best method in any particular case is a matter of opinion. Certain expenses can readily be allocated specifically; some can reasonably be considered to be proportionate to the amount of the loan while others are more appropriately regarded practically as a constant per account. Some licensees consider that the best method is to apportion 50 per cent on the basis of amounts and 50 per cent on the basis of the number of accounts which, in many cases, brings out results very close to those produced by a much more detailed analysis. Most licensees have endeavored to make a reasonable allocation wherever necessary but there have been a few notable exceptions which in the view of the department tend to distort the results. On the whole, if any company or class of business has received less favorable treatment in the apportionment of expenses, our view is that it has been the licensee rather than the associated company, or the small loans business of a licensee rather than its other business.

Concerning earnings, it cannot be overlooked that in many cases, especially amongst the smaller lenders or those closely owned and operated by a few individuals, profits are effectively withdrawn as salaries or other rather personal expenses, thus tending to depress their apparent earnings. Also, expenses are naturally increased and earnings are correspondingly reduced in times of expansion when new or additional lending offices are being opened. This has been an important aspect in recent years and especially so in 1955.

Some comment also seems desirable in explanation of the apparent discontinuity in the data for small loans in 1948, more particularly as between small loans companies and money-lenders; also in explanation of the apparent absence of any loans made above \$500 by the largest small loans company, Household Finance Corporation of Canada.

In 1945, the largest operator in the money-lenders group was the Campbell Finance Corporation, a provincially-incorporated company that was owned by a large Canadian acceptance company. In that year, Campbell Finance was sold to a large U.S. finance company which was not then operating in Canada. About one year later, in 1947, the latter U.S. company in turn sold Campbell Finance to the Household Finance Corporation of the U.S.A., which already owned the Household Finance Corporation of Canada. In the same year, 1947, the name of Campbell Finance was changed to Household Finance Corporation Limited. In 1948, the small loans business of Household Finance Corporation Limited, licensed as a money-lender, was transferred to Household Finance Corporation of Canada, licensed as a small loans company; and at the same time, the loans over \$500 in Household Finance Corporation of Canada were transferred to Household Finance Corporation Limited. The result at the end of 1948 was that a large volume of small loans in the money-lenders group was transferred to the small loans companies group and the loans over \$500 in both companies disappeared from the data completely. The small loans company, Household Finance Corporation of Canada, thereafter confined its business to loans of \$500 or less and the sister company, Household Finance Corporation

Limited, confined its business to loans over \$500 so that it no longer required a licence under the act. The latter unlicensed company is the largest operator at the present time in the field of loans over \$500, its volume of such loans being almost exactly equal to the total loans over \$500 made by all licensed lenders combined. Incidentally, the large Canadian acceptance company that sold Campbell Finance in 1946 almost immediately purchased what was then a very small but is now a very large licensed money-lender; and the large U.S. finance company that purchased Campbell Finance but sold it so soon, re-entered the Canadian field in 1955 through a new provincially-incorporated company bearing a name similar to its own.

Turning now to Table 1, which covers only small loans, i.e., loans of \$500 or less, the increase in the number of licensees from 62 at the end of 1953 to 70 at the end of 1955 should be noted. The number at the present time is 73 and there are about a dozen applications on hand or pending, including some backed by U.S. operators as well as substantial British interests. Paradoxical as it may seem, interest in obtaining a licence seems to have increased rather than diminished since the introduction of the present bill. But the increase in the number of licensees reflects only a fraction of the expansion in lending facilities: the number of branch offices is increasing at a tremendous rate. The number at the end of 1954 was 540, apart from the main office in each case, and during 1955 the number increased to 702, accounted for as follows:

Company	No. of Branches Dec. 31		Increase during 1955
	1954	1955	
Canadian Acceptance	35	43	8
Community Finance	23	25	2
Household Finance	169	209	40
Personal Finance	133	171	38
Associates Budget Plan	—	4	4
Atlas Thrift	1	1	—
Bellvue Finance	5	9	4
Canadian Personal Loan	1	1	—
Citizens Finance	1	12	11
Commercial Credit Plan	17	19	2
Consolidated Finance	4	4	—
Crescent Finance	9	9	—
Danforth Finance	1	1	—
Equitable Finance	—	2	2
Fairway Finance	2	2	—
Independent Finance	—	1	1
Lucerne Finance	—	2	2
Merit Finance	1	1	—
National Plan	1	1	—
Niagara Finance	87	106	19
P. F. Credit	1	22	21
Public Finance	1	1	—
Service Finance	1	1	—
Superior Finance	—	5	5
Trans Canada Credit	40	42	2
Union Finance	7	8	1
Totals	540	702	162

In addition to these branch offices, there were 65 main offices at the end of 1954 and 70 at the end of 1955. The total number of head offices and branch offices has increased from 384 at the end of 1950 to 772 at the end of 1955, i.e., by a little over 100 per cent. It seems clear that the lending field under present conditions is exceedingly attractive.

Items 2, 3, 5 and 6 of Table 1 show that the number and volume of loans of \$500 or less made each year are still increasing, although at a somewhat diminished pace, but the balances outstanding show a tendency to flatten out. These trends are attributable to a rapid shifting toward loans of larger amount nowadays, as reflected in Table 2, involving also the refinancing of smaller loans when partly repaid in order to obtain larger loans. Reference to page 59 of the Department's annual report for 1954 will show that of the total small loans made in that year about two-thirds, by amount, were made to "current" borrowers who nearly doubled the balance remaining unpaid on their previous loans, while nearly 80 per cent of the total loans made were to these "current" borrowers who nearly doubled the balances remaining unpaid on their previous managed to repay their loans in full. Amongst the older lenders the proportion of "current" and "repeat" borrowers is generally higher than amongst the relatively newer licensees. The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

Item 4 of Table 1 indicates that the average small loan is no longer increasing but it must be remembered that this is the average only for loans made in amounts not exceeding \$500. If loans over \$500 were also included, the over-all average would show a rapid increase. Unfortunately, accurate data in consolidated form are not presently available showing the size of loans made above \$500.

Items 7 and 8 show the income earned on small loans and I have already explained the reason for the reduced income between 1944 and 1950.

Items 9, 10 and 11 show the net amounts written off loans and the net amounts transferred to reserves for bad debts expressed as percentages of the balances of loans outstanding. If the basis were the amounts of loans made, the percentages would be reduced by approximately one-half. The record indicates that Canadian borrowers are very reliable and that losses are slight. The net amounts written off annually have averaged about $\frac{1}{2}$ of 1 per cent of outstanding loan balances, or $\frac{1}{4}$ of 1 per cent of the amount of loans made. Reserves for bad debts are maintained at about 3 per cent of outstanding loan balances, and since the growth of small loan balances has tended to slow up, the annual transfers for this purpose are now quite small. The record in the table extends back only to 1940 when the act came into force and it may be thought that losses during less favorable economic times might be much heavier. If the depression years in the thirties are any guide, there would seem to be little to fear since the experience of the three small loans companies during that period was equally good. For example, for the years 1934-1937, the net amounts written off were only about $\frac{1}{4}$ of 1 per cent of outstanding balances. On the other hand, write-offs in one state of the U.S.A. were reported to be as high as 11 per cent of loan balances in 1933 and about 5 per cent in 1938. Losses in the U.S.A. have generally been higher than in Canada.

Item 12 of Table 1 is intended to show the trend of expenses per small loan account per month. The average cost has been computed in the manner indicated mainly to facilitate comparison with the U.S.A. where the published figures are generally computed in this manner.

As might be expected, the average showed a tendency to decline during the war when costs were stable and volume was increasing; thereafter, the average increased steadily as the price level rose but the greatly increased volume has done much to offset rising prices so that the average cost now, \$2.19 per account per month, is only about 50 per cent more than the average during the war. However, this cost is inflated to some extent by current expansion costs and, furthermore, the average size of loan has increased greatly. The relationship between the average size of loan and average cost per account per month is approximately the same now as during the war. In the U.S.A., the average cost in many states is of the order of \$4.00 per account, or nearly double that in Canada.

Items 13 and 14 relate to earnings. Lenders operate in varying degrees and frequently to a large extent on money that they themselves have borrowed. Information concerning the extent of borrowed money compared with lender's own funds will be found in Table 5. Interest paid on borrowed money is, of course, deductible from taxable income so that both the weight of income tax and profits vary according to the proportion of borrowed money in the total funds employed. The profit on a lender's own dollar is obviously greater than on a borrowed dollar since interest must be paid on the latter, but so long as some profit can be made on a borrowed dollar the total profits will be increased by borrowing. Assume, for example, that a lender's gross rate earned is 8 per cent of loan balances or funds employed, measured before paying interest at 5 per cent on borrowed money and income tax at 50 per cent. On a lender's own dollar, the profit after tax would be 4 per cent.

The 8 per cent would be cut in two. It might therefore appear that since this rate is less than the rate payable on borrowed money, it would be uneconomic to borrow; that the gross rate earned is too low to permit operations to continue on a practicable basis. But such a conclusion would be incorrect since it is based on adjusting for income tax before interest on borrowed money whereas in practice interest on borrowed money is deducted from taxable income before income tax is calculated. Thus, on every dollar borrowed under the foregoing assumptions, 3 per cent would remain after paying interest and $1\frac{1}{2}$ per cent after paying income tax. If for every dollar of a lender's own funds one dollar can be borrowed, the total profit in relation to each of his own dollars would be 4 per cent plus 1.5 per cent or 5.5 per cent; or, if three dollars can be borrowed, the total profit would be 4 per cent plus 4.5 per cent or 8.5 per cent.

There are several ways in which earnings or profits are measured in this business but no one method is free from question or provides a conclusive standard. If it is desired to measure the rate of return per dollar used in the business, regardless of whether that dollar comes from capital or is borrowed, then the interest paid on borrowed money should be ignored. This would be the case where earnings are expressed as a percentage of average loan balances, average assets or average total funds employed. If it is desired to measure the rate of return in relation to the lender's own funds or proprietary interest, so to speak, interest paid on borrowed money should then be treated as an expense. Sometimes earnings are quoted on the basis of the original amount of loans made rather than average loan balances and since the former are usually about twice as large as the latter, rates of earnings on this basis are about 50 per cent of the rates based on average loan balances.

In view of the many possible pitfalls, great care must be exercised in the interpretation of rates of earnings. No single method can be relied upon to prove whether the rates of earnings or profits are reasonable or unreasonable. The actual profits, rather than the rates, are probably the determining factor in attracting lenders to or discouraging them from the small loans field. The rates shown opposite item 14 of Table 1 are on the "gross" basis, i.e., before paying interest on borrowed money or income taxes. They are thus independent

of the latter varying influences. These rates are put forward in this form mainly to show the trend of the inherent earning capacity of the total funds employed. Although a decline is indicated in recent years, especially in 1955, this is attributable mainly to the expansion in the industry, involving many new lending offices that take time to produce. Evidence of this strain is more apparent from an examination of the profits shown in Table 4 for new licensees during 1954 and 1955, listed towards the bottom of the table. As will be seen, most new licensees operate at a substantial loss for the first year or two until they get established.

The final item 15 in Table 1 shows the actual net profits on loans of \$500 or less, after all expenses including interest on borrowed money and income taxes have been paid. The decrease in profits in 1955 is again largely the result of losses amongst new licensees, of the strain of expansion, and probably to some extent also, of somewhat higher costs generally. It is difficult to segregate the effect of each of these influences. However, the decrease in profits should not, in my opinion, be interpreted as any indication that the rates of charges for loans in this lower area are inadequate.

Table 2 gives an abstract of the experience for business other than small loans since 1950 because it is only since then that the volume of loans over \$500 has increased so rapidly. The data relate to loans over \$500 and also to financed paper such as conditional sale agreements, etc., where licensees are conducting that kind of finance business as well as making loans. Although the balances of small loans outstanding only increased from \$58,606,932 at the end of 1950 to \$88,824,459 at the end of 1955, or by 52 per cent—see item 6 of Table 1—the balances of loans over \$500 and other business increased during the same period from \$24,247,729 to \$109,523,731, or by 352 per cent. This clearly shows where most of the business is now done and the need for consideration of the charges being made for loans over \$500. Of the total balances of \$109,523,731 outstanding at the end of 1955, \$93,634,713 related to loans over \$500 as compared with \$62,585,440 at the end of the previous year. The balances (\$93,634,713) of loans over \$500 made by licensees alone now exceeds the balances—\$88,824,459—of loans of \$500 or less and it is known from data furnished through the courtesy of Household Finance Corporation Limited that that unlicensed company has an additional volume of loans over \$500 amounting to \$91,000,000. These figures still leave out of consideration loans made by all other unlicensed lenders.

Items 2 and 3 of Table 2, relating to income, would indicate that the rates charged for loans over \$500 are substantially less than for small loans but this is not so. The explanation will be found in Table 6 where it will be seen that there is not much difference between the annual rate of income for small loans and other loans but the rates for conditional sale agreements, and so forth, are lower. The rates of income in Table 2 are depressed by combining these two kinds of business but a separation was not made in the annual returns until 1953. Apart from some exceptions that I shall refer to later, most licensees are charging 2 per cent per month on loans over \$500. It is this practice more than anything else that calls for study and attention now.

Items 4, 5 and 6 show that the percentages written off the larger loans are approximately the same as for small loans, being roughly $\frac{1}{2}$ of 1 per cent of outstanding balances but the percentages transferred to reserves for bad debts are somewhat higher. This may indicate a more cautious outlook concerning future losses on the larger loans but it can be explained also by the rapid growth recently in this branch of the business. At the present time the reserves for bad debts are maintained in about the same proportion for large loans as for small loans.

Items 7 and 8 show, as would be expected, a generally higher level of gross earnings for the larger loans than for small loans, especially amongst the money-lender group. The somewhat lower rate earned by all licensees combined on the so-called large loan business as compared with small loan business is accounted for by the fact that most of the small loan business is done by the small loans companies which as a whole enjoy a higher level of earnings whereas more than half of the large loan business (so far as licensees are concerned) is done by the money-lenders which, in general, are smaller and have lower rates of earnings. The rates in Table 2 are, like those in Table 1, depressed in recent years—especially 1955—by the rapid expansion in new offices.

Item 9 of Table 2 needs little comment except to point out that the net profits on "other business" have now overtaken the net profits on small loans business and nearly all of the profits of the money-lender group appear to come from loans over \$500. These results are, nevertheless, distorted to some extent by losses of new licensees and by an undue proportion of expenses being assessed against the small loans branch by some money-lenders.

Table 3 is a consolidation of the net profits shown in the final items of Tables 1 and 2. Regardless of the manner in which rates of earnings are computed, these profits represent the end result of operations from the lenders' point of view. Upon reference to Table 4, it might be noted that the net profits in 1955 would have been nearly \$500,000 larger had it not been for the losses of lenders that were only licensed in 1954 or 1955. Excluding these losses, the profits in 1955 were almost exactly double those in 1951.

Table 4 shows the final profits of each licensee separately and also its own funds in the business, the latter comprising the paid capital, surplus (if any) paid in by the shareholders, general reserves (only one case) that have been established through appropriations from the profit and loss account, and the surplus balance existing in the profit and loss account. In many cases, licensees are not paying dividends to shareholders but are allowing profits to accumulate in the profit and loss account to provide additional working funds. Net profits compared with lenders' own funds indicate the profitable nature of the business in most cases under present conditions. In the case of Household Finance Corporation of Canada, mention should probably be made of the practice of paying a supervisory fee to the parent organization which at present is of the order of \$500,000 per year and is, of course, included in the expenses. If this fee were not paid, profits would be increased by roughly half this amount, after allowing for the higher income tax that would then be payable.

Table 5 gives a comparison between the volume of lenders' own funds and borrowed money, together with the average annual rates of interest paid on the latter. The licensees shown separately were singled out because they have the largest volume of small loans. In total, borrowed money outweighs lenders' own funds by more than three to one.

It is sometimes said that U.S.-owned companies obtain their funds in the U.S.A. at a lower rate than Canadian-owned companies can arrange in Canada, thus giving the former a competitive advantage or at least accounting in part for their larger profits. There hardly seems to be justification for this view since the largest U.S.-owned company, Household Finance, has paid 4.75 per cent since 1954 on all moneys borrowed from its parent and Personal Finance has paid its parent 6 per cent since 1953. It might also be explained that a substantial proportion of the moneys lent by the parent organization in these two cases in the past has been raised from institutional investors in Canada on which the prevailing Canadian rate has of course been paid by the parent. There would be an advantage to the parent where money is borrowed either in the U.S.A. or Canada and lent to its subsidiary at a higher rate but this practice is also followed by some Canadian-owned companies.

Table 6 shows the average annual rates of income earned on the different classes of business. For loans over \$500, although the prevailing rate is 2 per cent per month, the lower annual rate shown for the Canadian Acceptance Company is explained by the fact that that company charges only $1\frac{1}{2}$ per cent per month on all such loans. Personal Finance adopted a new scale late in 1955 for loans over \$500 which grades down to the equivalent of 1.73 per cent per month for a \$1,000 loan and 1.65 per cent for a \$1,500 loan. Commercial Credit Plan and Union Finance charge $1\frac{3}{4}$ per cent per month on all loans over \$500, while Niagara Finance has a graded scale running down to about 1.8 per cent for a \$1,000 loan and 1.7 per cent for a \$1,500 loan.

Several licensees in the "All Other" group also charge somewhat less than 2 per cent per month on the larger loans but a few charge more. Equitable Finance charges only $1\frac{3}{4}$ per cent on small loans as well as loans over \$500. Maritime Finance charges 1.8 per cent on small loans and grades this down to 1.625 per cent for loans over \$500 for a term of 24 months and 1.50 per cent for a term of 30 months. Service Finance charges 2 per cent per month on loans up to \$200 and $1\frac{3}{4}$ per cent on loans over \$200; in one particular locality the latter rate is reduced to $1\frac{1}{2}$ per cent.

The fact that some licensees, including quite small ones, are operating at rates less than 2 per cent per month suggests that others could do likewise but so far competition has been ineffective in bringing about any general reduction below 2 per cent per month. Seven licensees, however, have arranged life insurance coverage of loans at no extra cost to the borrowers, namely, Astre Finance, Capital Finance, Century Credit, Niagara Finance, Peoples Finance, Strand Finance and Trans Canada Credit.

Table 7 shows the distribution of the income dollar so far as losses and expenses, other than income tax and interest on borrowed money, are concerned. The losses and main categories of expenses are in each case expressed as a percentage of total income excluding recoveries on amounts previously written off. Substantial variations amongst the several lenders and between small loans business and other business are evident. The expenses connected with small loans are relatively heavier than for larger loans, hence one expects to find relatively higher percentages for the former when there is little or no difference in the rates charged for small loans as compared with those for larger loans. On the other hand, this consideration is tempered where lenders transact a substantial volume of business relating to conditional sale agreements, etc., which, as shown in Table 6, generally carry a lower rate of charge. The volume of this kind of business is much larger, proportionately, in the "All Others" group of money-lenders. A few cases stand out where the percentages in the table are very much higher for small loans business than for other business. At least some of these cases are, in my opinion, attributable to the apportionment of too many expenses solely on the basis of the number of accounts without any regard to the size of loan. I believe that there has been great improvement in the accuracy with which expenses are allocated between these two main branches of business but in a few instances the licensees have continued to view the problem differently from the department.

Advertising is one feature of the small loans business that usually attracts a good deal of attention. To the credit of the licensees it can be said that whereas the small loans companies that were in business in the thirties spent 10 per cent of their income on advertising, the proportion now is down to about 5 per cent or slightly less. There would seem, however, to be room for a further substantial reduction when one has regard for the enormously larger volume of business presently transacted and for the fact that the existence of the facilities of licensees is now far better known than twenty years ago. The very large proportion of business stemming from "current" or "repeat" customers is another aspect that should not be overlooked since they already

have an intimate knowledge of the available facilities. It is difficult to escape the conclusion that the present situation is one where advertising is carried on more for a competitive advantage than to acquaint the public with the existence of money-lending facilities. The latter is the principle followed in Great Britain where the nature of advertising is strictly limited. Even if one were prepared to agree that advertising for competitive purposes is justifiable in the money-lending business, the over-all competitive situation would be relatively unchanged if all licensees were to reduce their advertising by, say, one-half. Any such change would, of course, have to be started by the largest lenders. For purposes of comparison, I might mention that trust companies subject to supervision by the department spend about $1\frac{3}{4}$ per cent of their income on advertising and mortgage loan companies about $\frac{1}{2}$ of 1 per cent. Even if the present advertising costs of licensees were cut in two, they would still be high as compared with trust and loan companies.

Concerning salaries and directors' fees, it will be seen that they average about 25 per cent of income, or very slightly less, but in the case of one small loans company the proportion is about 50 per cent above the average and in the case of the "all others" group of money-lenders, the proportion is about one-third above the average. The explanation of these higher levels would seem to lie in the fact that in most instances ownership of the business is closely held by a few individuals and profits are being indirectly withdrawn as salaries.

Looking at expenses as a whole, it may be said that about 50 per cent of the total income received from borrowers is used to defray losses and expenses other than income tax and interest on borrowed money, the other 50 per cent being left for interest, taxes and profit.

Table 8 gives an analysis of operations in recent years, the income, losses, expenses and gross earnings being shown as percentages of average assets during the year.

It will be noted that one small loans company has quite a low level of gross earnings compared with most other licensees and that this is caused by higher expenditures for "salaries" and "other expenses". If salary expenses in 1955 were reduced from 8.5 per cent of average assets to the general average, 5.2 per cent, the gross earnings would be raised to 10.0 per cent. A similar adjustment in earlier years would have shown even higher earnings. Part of the explanation for the higher expenses in this case may lie in a relatively smaller volume of business being handled by its branches than in other cases.

The lower level of income for the "all others" group of money-lenders results from a larger proportion of finance business relating to conditional sale agreements, and so on, carrying lower rates of charges. The higher expenses and lower gross earnings for this group in 1955 are explained by the high costs incurred by new licensees in 1954 and 1955 (see the footnote to Table 9). Excluding these new licensees, the gross earnings shown at 5.2 per cent in 1955 would be raised to 7.5 per cent.

There is a growing tendency in the industry to measure earnings in relation to the average assets or total funds employed, no distinction being made between the lender's own funds and borrowed funds, and in so doing to reduce the gross earnings not by the income taxes actually paid but by the taxes that would have been payable had no interest been paid on borrowed money. The right-hand column of Table 8 lends itself readily to calculations of this kind; the percentages shown need simply be reduced by the applicable rate of income tax. In 1955, the tax rate was 20 per cent on the first \$20,000 of taxable income and 47 per cent on the excess. Consequently, the net rate earned on the average assets would be at least 53 per cent of the percentages

shown in the table and in the case of small lenders with taxable incomes of \$20,000 or less the net rate would be 80 per cent. Most of the lenders in the "all others" group fall wholly or mainly within the 80 per cent bracket.

On this basis, the net rate would be about 7 per cent for the largest small loans company and 5½ to 6 per cent for most other licensees. If the percentage for the "all others" group in the table be raised from 5·2 to 7·5 per cent by excluding the new licensees, the net rate for this group would be of the order of 80 per cent of 7·5 per cent equals 6·0 per cent.

This method of computing the net rate earned on total funds employed does not of itself prove anything and must be used with great caution, especially in any attempt to compare earnings in this business with those in other businesses. It may, however, serve some purpose in comparing earnings with, say, those in the same industry elsewhere. In the various states of the U.S.A., the rates on this basis vary greatly—all the way from somewhat less than 3 per cent up to 7 per cent or more. There are very few less than 4 per cent but there are several less than 5 per cent.

The method just referred to for measuring net earnings is, of course, only one of several approaches to the problem and seems more appropriate for large lenders—especially those operating with a relatively small capital and large borrowings from a parent organization—than for the smaller independent lenders. The more usual method of relating the actual net profits to equity capital seems more appropriate for the latter at least.

Table 9 carries forward the average assets and gross earnings from Table 8 and also shows, for 1955, rates of earnings on two other bases. The first of these two, headed "net rate earned on average assets", has been included mainly to afford comparison with rates similarly computed in several states of the U.S.A. Under this method, the gross earnings are reduced by the income taxes actually paid and since the latter have been reduced through the treatment of interest on borrowed money as an expense, the net earnings are larger. In the states where this method is followed, rates of about 6 per cent are the most common.

The second additional set of rates expresses the final net profits, after taxes and interest on borrowed money, as a percentage of the lender's own funds represented by the paid capital, surplus paid in by shareholders, general reserves and the balance of the profit and loss account. Where a licensee is a subsidiary of a parent organization and operates mainly on funds borrowed from that organization the capital may be very small, thus giving rise to an inordinately high profit ratio. In these cases, the ratios are less meaningful than for the smaller independent lenders.

Coming now to the present situation, the main points that should be noted are the recent rapid shifting in loan activity from the present regulated field below \$500 to the field above; the enormous growth of loans in the latter area, especially up to \$1,000 but also in substantial volume up to \$1,500; the failure of competition to reduce the charges for the larger loans; and the mushrooming of lending facilities, with unprecedented interest in this business being manifested from both within and without the country. In addition, the abuses that have developed elsewhere in the arrangements made for insuring the lives of small borrowers at undue profit to the lender and the possibilities of similar abuses arising in the small loans field in Canada suggest the desirability of preventive action in this respect, especially if new, reduced, maximum permissible charges for loans are stipulated.

Concerning lending facilities generally, I think it is universally accepted that over-ample facilities are not good either from the social or economic point of view. Too many offices must tend to encourage people to borrow. In most lines of business, strong competition usually tends to keep the situation under reasonable control and to lower prices but experience points to the opposite effect in the small loans business. As competition increases, expenses are prone

to rise through more aggressive advertising, the opening of additional lending offices in close proximity to those of competitors, and in other ways. Incidentally, the clustering of lending offices that is becoming increasingly evident in Canada is not generally permitted in the U.S.A., where the so-called rule of "convenience and advantage" is part of the law. The general practice there is to license each office rather than each lender only, and to require a case of be made that a new office in any particular locality is necessary for the convenience and advantage of the public. However, any such rule in the act would clearly be unconstitutional since it would not be legislation respecting interest. One might think that a lender could secure a competitive advantage by rate reductions but this course is seldom adopted, apparently through fear that such a course would only reduce income without increasing business. The ineffectiveness of rate reductions in competition, or the reluctance of lenders to make them, is probably attributable to a less acute cost consciousness on the part of borrowers than in the merchandising field generally or to a reluctance on the part of borrowers, after having established an account with one lender, to switch to another. In any event, whatever the reason, competition has been ineffective in controlling charges; otherwise, small loans laws would never have been necessary and the present rates charged for the larger unregulated loans would not be so high.

The desirability of extending the scope of the act and of setting lower rates of charges for the larger loans was expressed in a brief submitted in 1955 by the Canadian Consumer Loan Association whose membership comprises most of the licensed lenders. The recommendations in that brief were undoubtedly conceived with the best interests of borrowers and the business in mind and were prompted in part by the unsatisfactory practices being followed by unlicensed lenders in the unregulated field above \$500. The principal recommendations were that the scope of the Act be extended to \$1,500 and that a graded maximum scale of charges be set rather than a flat rate, being 2 per cent per month on the first \$500 of any loan, plus $1\frac{1}{2}$ per cent per month on any excess over \$500 but not over \$1,000, plus 1 per cent per month on any excess over \$1,000 up to \$1,500. For a \$500 loan, this scale involved no change from the present monthly rate of 2 per cent; for a \$1,000 loan, the equivalent flat monthly rate would be about 1.86 per cent; and for a \$1,500 loan, about 1.69 per cent.

The main justification for high rates of charges on personal loans is that the amounts are usually small and the periods relatively short. Many expenses, such as those for investigating the security, bookkeeping, etc., are substantially the same regardless of the size of loan and hence call for a high percentage charge when expressed in terms of a small amount, the percentage decreasing as the size of loan increases. One feature that must tend to reduce expenses in an established business is the frequency with which "current" or "repeat" borrowers return for additional loans since the security of these borrowers has already been investigated and their records have already been established. It is impracticable, because of the variables involved, to determine a scale of charges that precisely corresponds to the costs at every level. The best that can be done is to adopt a scale that results in a reasonable degree of fairness to all borrowers. For loans up to \$500, or perhaps somewhat higher, a flat rate may be justified but for larger loans a graded rate is essential. It is undesirable to have arbitrary breaks in the formula such as result from a

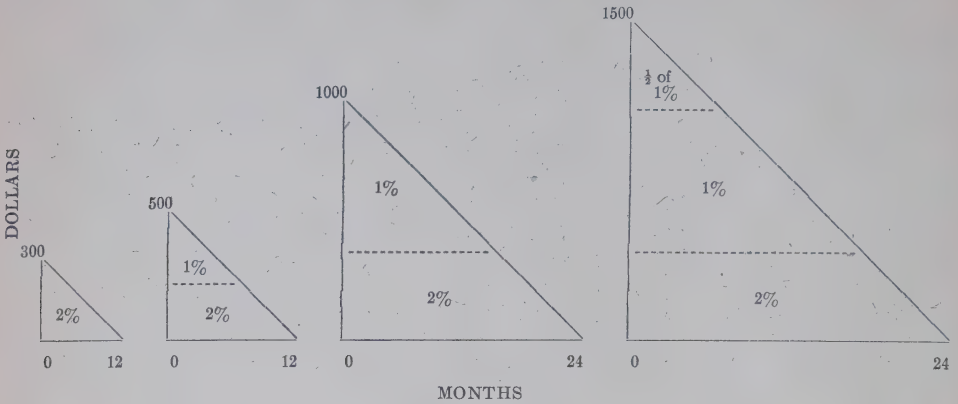
flat rate for loans up to a certain amount, another flat rate for loans within a certain range beyond, etc. Instead, a formula of the kind recommended by the association, which involves the application of graded rates to the successive tiers or layers of each loan, is generally more satisfactory. This kind of formula has been adopted in most states of the U.S.A., even for loans up to \$300 or \$500.

The determination of an appropriate scale of maximum rates is a most difficult problem and in some ways is almost an intractable problem because a rate that is adequate to enable most small lenders to make a profit results in most large lenders making inordinately high profits. The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities, especially for needy borrowers of small amounts, and yet of securing the best procurable rate.

Traditionally, the primary function of the small loans industry is to provide facilities for needy borrowers of small amounts and if the operations of the industry are to extend to larger and larger loans the rates charged should come down to levels at which borrowers may reasonably expect to find facilities available. A relatively high rate for a remedial loan of a few hundred dollars may be justifiable by reason of the impact of expenses but it is much more difficult to justify the same high rate for larger loans. It would seem to be a serious matter for a borrower of \$1,000 or more to become saddled almost continuously, as many borrowers do, with charges at an unduly high level. If the small loans industry cannot provide borrowing facilities for larger amounts at more reasonable rates, the question arises whether other means of providing the necessary facilities ought not to be explored. The situation that has developed rapidly in recent years in Canada is one where the small loans industry has suddenly found itself with a vast new virgin field of larger loans open to it, a field relatively free from substantial competition. In the U.S.A., the banks occupy a very large part of this field and in several important states the small loans companies are effectively restricted to the small loans field up to \$500 because of the low rate prescribed by the usury laws for larger loans; in certain states, the small loans companies are specifically prohibited from making loans above the regulated area. If the small loans industry in Canada is to become entrenched as the main source of personal loans in this broader field, a heavy responsibility rests upon the industry to provide the necessary facilities with maximum efficiency and at minimum cost which, I think, means at rates very substantially lower than charged for loans of \$500 or less. It would be unfortunate if lenders are permitted to become accustomed to unduly high rates in the larger loan field for, like personal finances, expenses are usually not long in rising close to the level of income.

The maximum scale of charges proposed in the present bill, namely, 2 per cent per month on the first \$300 of any loan, plus 1 per cent per month on any excess over \$300 but not over \$1,000, plus $\frac{1}{2}$ of 1 per cent per month on any excess over \$1,000 up to \$1,500, is the equivalent of a flat rate of 2 per cent per month on loans up to \$300, 1.81 per cent on a \$500 loan, 1.48 per cent on a \$1,000 loan and 1.27 per cent on a \$1,500 loan, in each case on the assumption that the loan runs its full period and is not prepaid or refinanced earlier.

In round figures, this means a rate of about $1\frac{1}{2}$ per cent per month on a \$1,000 loan and $1\frac{1}{4}$ per cent on a \$1,500 loan. Having regard for the incidence of expenses, these rates are, in my opinion, reasonably in balance with a rate of 2 per cent for the smaller loans. Pictorially, the layers of a loan carrying the various percentages mentioned, would look like this:



A graded formula of this kind assumes that the layer of the loan carrying the lowest rate is repaid first. Consequently, the average rate earned on any loan is lowest in the first month and steadily increases from month to month until the full 2 per cent is earned during the later months. For the specimen loans that I have mentioned, the average rate in the first month and the equivalent flat rate throughout the entire period would be as follows:

Amount of loan	Average rate in first month	Rate toward end of period	Equivalent flat rate throughout entire period
\$	%	%	%
300	2.00	2.00	2.00
500	1.60	2.00	1.81
1000	1.30	2.00	1.48
1500	1.03	2.00	1.27

The fact that the rate earned is less in the early months than in later months tends to depress earnings in times of rapid expansion like the present when more loans are in their early months but this only shifts the incidence of earnings and does not alter the fact that the equivalent flat rates will be earned if loans run to maturity. It is only if loans are prepaid or refinanced before maturity that the full equivalent rate would not be earned. If anything, this may be regarded as an advantage of this kind of formula from the viewpoint of good practice since it may tend to discourage premature refinancing.

It will probably be said that a rate of $\frac{1}{2}$ of 1 per cent on the part of a loan between \$1,000 and \$1,500 is unrealistic because it is so close to the rate paid on borrowed money in many cases. It should be remembered, however, that this part is repaid first, is outstanding but a very short time and is made at little or no extra cost. Moreover, the rate of $\frac{1}{2}$ of 1 per cent is merely an element in a formula for producing an appropriate composite rate for loans at various levels. A composite rate of 1.27 per cent per month for a \$1,500 loan is equivalent to an effective annual rate of 16.4 per cent a composite rate of 1.48 per cent per month for a \$1,000 loan is equivalent to an effective annual

rate of 19·3 per cent. It will probably also be said that lenders will refrain from making loans between \$1,000 and \$1,500 but this has not been the experience in states like Connecticut, New York and New Jersey where the rate of $\frac{1}{2}$ of 1 per cent applies on the part of any loan exceeding \$300. The trend of loans in those states has in fact been strongly into the area carrying this rate.

From the lenders' point of view, the most important question is, of course, the effect that the proposed rates would have on their income and profits. There is no doubt that the effect would be substantial. For loans up to \$500, being the present regulated area, I estimate that the income would be reduced by about 5 per cent. For loans between \$500 and \$1,500, being the proposed new area of regulation, the effect would vary, depending upon the pattern or distribution of loans by amount. The two largest small loans companies have only a very small proportion of loans over \$1,000 whereas many money-lenders do about as much business above \$1,500 as between \$500 and \$1,500. For loans made in amounts between \$500 and \$1,000, I estimate that income would be reduced by about 24 per cent and for loans made in amounts between \$1,000 and \$1,500 by about 38 per cent, in each case in relation to assumed charges of 2 per cent per month. For loans over \$1,500, which would continue unregulated, I think it would be unrealistic to assume any change in practice or to predict what changes, if any, may be made.

In the case of the largest small loans company, Household Finance Corporation of Canada, the present gross earnings of 12·8 per cent would be reduced to about 11·1 per cent and, after income tax at 47 per cent, to about 6·2 per cent. The unlicensed associated company, Household Finance Corporation Limited, would apparently have its gross rate reduced from the present level of 16 per cent or 17 per cent to approximately 11 per cent and, after tax, to slightly less than 6 per cent.

In the case of the second largest small loans company, Personal Finance Company of Canada, the present gross rate of 11·3 per cent would be reduced to about 7·5 per cent and, after tax, to slightly less than 4 per cent. This is probably the minimum level at which a large lender can be expected to operate but there is good reason to expect that this rate would improve once the expenses arising from the opening of so many new offices and the rapid increase in the volume of new business subside. Furthermore, one may reasonably expect that this company's rate of earnings will steadily increase and that before very long it will attain the same earnings level as the largest company.

The third small loans company, Community Finance Corporation, would apparently be hard hit because of its present high expense level and low profit level but if salaries and other expenses were reduced even to the level of the "all others" group of money-lenders, the earnings, after tax, would be over 4 per cent of average assets and the net profits after interest on borrowed money and taxes would be about 7·5 per cent of the company's own funds. This company operates in association with its parent, the Peoples Thrift and Investment Company, and some readjustment of its present organization, which includes a relatively large number of offices for the volume of loan business handled, would be necessary to show a satisfactory return. Community Finance gets most of its funds from Peoples Thrift and pays about 1 per cent more than it costs the latter to borrow; hence there is some indirect gain to the parent from these borrowing transactions.

The fourth small loans company, the Canadian Acceptance Company, also operates in association with its parent, the Canadian Acceptance Corporation Limited, but since the former is already charging only $1\frac{1}{2}$ per cent per month on all loans over \$500, its operations would be affected only slightly.

The four large money-lenders, Commercial Credit Plan, Niagara Finance, Trans Canada Credit and Union Finance, each operate in association with parent or related acceptance companies and in my opinion could continue to earn a reasonable return, especially if account is taken of the indirect advantages to the parent of sharing expenses in various ways, including so-called "service", "management", "contract", and so forth, fees. Union Finance just began business in 1952 and its earnings are steadily improving. In the case of Trans Canada Credit, the licensed lender obtains funds from its parent and pays substantially more than it costs to raise the funds so that the parent enjoys some additional return in this way.

The licensees that would be most seriously affected are in the "all others" group and vary all the way from individuals to fast growing subsidiaries of U.S. parent companies. A great many of the licensees in this group also operate in association with sales finance or acceptance companies and in many other cases the lending business is not the only business carried on by the owners. Taking this group as a whole, but excluding the recent licensees with negative earnings, and assuming no change in lending practices above \$1,500, it is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds. In some cases the return would be more and in some cases less. Many lenders may feel that this is an inadequate rate of profit to maintain their interest in staying in the field and some might withdraw. On the other hand, the mortgage loan companies supervised by the department earned only 7.0 per cent in 1954 on equity capital and reserves before making transfers to strengthen investment reserves and 5½ per cent after such transfers. The rates of return on net worth vary greatly in different lines of business and while the rates in most lines are higher, some are lower. The current return amongst merchandising companies and public utilities is in each case roughly comparable, being of the order of 7 per cent per annum. I should not want to minimize or gloss over the seriousness of forcing any lender out of business but at the same time I feel that the great majority of those who might withdraw have the ingenuity to put their funds to other profitable use.

I believe that lenders who now do 90 per cent or more of the personal loan business in Canada would continue to operate at a reasonable profit under the proposed rates and that adequate facilities would continue to be available to the borrowing public. If, on the other hand, it is felt that all lenders, or practically all, must be permitted to continue to operate profitably, then higher rates than those proposed would be necessary. The fundamental question is whether borrowers in Canada are to secure the best procurable rates or whether they are to pay more than is necessary in order to permit several small lenders doing only a small fraction of the business to continue much as heretofore.

In the determination of this question, I would suggest for consideration that the future of many small lenders may not be assured in any event merely by fixing maximum rates at a higher level than necessary for other lenders, since in those circumstances more and more lenders, large and small, will probably continue to be attracted to the field. Also, there can be no assurance that a predominantly Canadian-owned industry can be built up merely through higher rates because there is no evidence that such a policy would lead to a decrease in the proportion of business transacted by foreign-owned licensees or that the borrowing public would benefit if that were the result. Moreover, Canadian-owned licensees may at any time be sold to outside interests, as occurred when the first small loans company was sold in 1932, the largest money-lender in 1946 and another small but successful money-lender in 1955.

Another proposal in the bill is to include in the definition of "cost of loan" any premiums for life insurance or personal accident or sickness insurance arranged by the lender covering the indebtedness of borrowers. In requiring lenders to assume costs of this kind there is, of course, no intention to prohibit any such insurance arrangements from being made. Elsewhere, however, serious abuses have developed, involving excessive coverage, excessive premiums being paid by borrowers and excessive commission profits being made by lenders. It is true that insurance of this kind is of benefit to borrowers but it is also of benefit to lenders who are thereby relieved of pressing for payment in embarrassing circumstances and, in fact, guaranteed payment in full. The insurance may theoretically be arranged either on a compulsory or optional basis on the part of borrowers but the difference in practice is more theoretical than real. I believe that the only sure way to avoid the arrangement of insurance simply as a device to supplement the profits of lenders or otherwise to afford better security at additional cost to borrowers is to require any such cost to be absorbed by the lender within the maximum rate fixed by the act. There have been increasing signs recently of the desirability of the amendment proposed.

The other amendments contained in the bill are, in the main, consequential upon the adoption of the principal amendments and may more readily be dealt with when the bill is under detailed consideration, clause by clause.

In conclusion, I should like to say that notwithstanding all that is said and heard about this very controversial business, we have had good cooperation from licensees as a whole and there can be no doubt that conditions in the regulated field of loans have greatly improved since the act was passed.

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-Bill
Third Session—Twenty-second Parliament

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

Bill 51

An Act to amend the Small Loans Act

THURSDAY, JULY 19, 1956

WITNESSES:

Mr. F. P. Varcoe, C.M.G., Q.C., Deputy Minister of Justice; Mr. C. M. Cawker, President, Canadian Consumer Loan Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

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ON
BANKING AND COMMERCE

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and Messrs.

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Bell	Hollingworth	Rouleau
Benidickson	Huffman	St. Laurent
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Hamilton (York West)	Regier	

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 19, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Ashbourne, Balcom, Cameron (*Nanaimo*), Crestohl, Deslieries, Enfield, Eudes, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Hollingworth, Huffman, Hunter, Knight, Michener, Monteith, Philpott, Quelch, Regier, St. Laurent (*Temiscouata*), Thatcher and Viau.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; F. P. Varcoe, C.M.G., Q.C., and E. R. Olson of the Department of Justice; and representatives of certain Small Loans Companies and interested organizations.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Fifth Report of the Subcommittee on Agenda and Procedure, as follows:

Your Subcommittee met at 10.10 o'clock p.m. on Tuesday, July 17, 1956, and agreed to recommend:

That the Committee continue its consideration of Bill 51, An Act to amend the Small Loans Act, on Thursday, July 19, at 3.30 o'clock and 8.15 o'clock;

That, if several other committees will be sitting on Tuesday, July 24, the Subcommittee meet prior thereto to consider when the Committee should next meet; otherwise, that the Committee meet on Tuesday, July 24, at 3.30 o'clock and 8.15 o'clock p.m.;

That the Subcommittee meet again to review the situation immediately following the second meeting on Tuesday next, July 24, or on such alternative day as may be fixed; and

That the immediate order of business of the Committee be as follows:

1. To complete the examination of Mr. MacGregor;
2. To hear Mr. F. P. Varcoe, Deputy Minister of Justice; and
3. To hear Canadian Consumer Loan Association on their brief.

Respectfully submitted.

The Fifth Report of the Subcommittee was adopted unanimously.

Mr. MacGregor was again called; there being no further questions of him on his statement on the Small Loans Act, he was thanked and was retired.

Mr. Varcoe was called; he was questioned on certain constitutional aspects of the legislation before the Committee. Mr. MacGregor answered questions specifically referred to him. Mr. Varcoe was thanked and was retired.

The Chairman stated that, pursuant to a resolution of the Committee on July 12, Merchants Finance Limited had been invited to appear before the Committee; and that he had received a reply from the company expressing its willingness to appear, and enclosing copies of certain letters and a table of

statistics. It was agreed that the said correspondence be printed as an appendix to this day's Minutes of Proceedings and Evidence. (See Appendix "A".)

At 5.25 o'clock p.m., the Committee adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m., the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Ashbourne, Balcom, Cameron (Nanaimo), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Huffman, Hunter, Knight, Michener, Monteith, Quelch, Regier, Rouleau, St. Laurent (Temiscouata), Thatcher and Viau.

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); and other representatives of Small Loans Companies; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

Mr. Cawker was called; he commenced the presentation of the brief of Canadian Consumer Loan Association, copies of which had been distributed to members of the Committee, and answered questions thereon. Mr. McClure answered questions specifically referred to him.

Mr. Cawker being still before the Committee, at 10.00 o'clock p.m., it adjourned until 3.30 o'clock p.m. on Tuesday, July 24, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 19, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, there is a quorum.

The standing subcommittee on agenda and procedure which held a meeting after the last sitting of this committee begs leave to present its fifth report:

(For report of subcommittee, see minutes on proceedings of this day.)

The CHAIRMAN: Gentlemen, I am hoping that you can complete the examination of Mr. MacGregor fairly briefly. If there are any questions which you wish to ask, would members please indicate their names to me? All those who wish to question Mr. MacGregor will now kindly indicate their interest or forever hold their peace.

No further questions? Fine!

Mr. MacGregor, I think you will have to hold yourself available in case members may wish you to clear up any point which might arise.

Mr. K. R. MACGREGOR, (*Superintendent, Insurance Department*): I plan to attend every meeting, Mr. Chairman.

The CHAIRMAN: I know you would all like me to thank Mr. MacGregor for his patience and for the courtesy that he has shown to us all through this hearing. It has been the conduct of a very high-minded public servant doing a splendid job and on behalf of the Committee I thank you.

Hon. MEMBERS: Hear, hear!

The CHAIRMAN: Mr. Varcoe, could we hear from you, now?

Mr. F. P. Varcoe, C.M.G., Q.C., Deputy Minister of Justice, called:

The CHAIRMAN: Mr. Varcoe has not prepared any formal presentation. He is really here to answer any questions which he finds possible to answer on the constitutionality of any matter which might be considered before this committee—possibly such matters as advertising, the acceptance field, or any other points which any members of the committee would like to question him about.

By Mr. Knight:

Q. Mr. Chairman I have a question I would like to ask, and it is in regard to advertising which is put in the newspaper chiefly by small loans companies. It is their custom, rather than stating the amount of interest or the amount the loan will cost in terms of per cent per annum, to state that the loan will be repaid monthly, perhaps in 10 or 12 monthly payments. I take it they have reasons for doing so. Now I think that, where people who lend money advertise that fact, they should be required to state in plain terms the cost of that loan expressed as percentage per annum, bearing in mind that the type of person to whom they will be lending money is in many cases unable to do arithmetic, or so mentally disturbed at the time that they are unable to make the calculation. I have always felt that this would be desirable, instead of simply stating the amount that must be repaid at the end of January, February, March, and so forth; and my question is: Is there anything that would be illegal about introducing that procedure from the constitutional point of view? What is our position if we were to ask them to do that?—A. Well, Mr. Knight, if you are thinking about Bill 213—

Q. Naturally!—A. —that stands in your name, that contains the kind of provision you have in mind, and I note that it purports, in part, to amend section 14 of the Small Loans Act which is the section which relates to the powers of certain finance companies, that is, companies incorporated by parliament, and I think there would be no doubt that such a provision could be annexed to the powers of such dominion companies—

Q. In other words if it is not constitutional now it could be made so by an amendment to the act? Is that it?—A. When you say it is not constitutional now—it is not in the law now.

Q. I take it it is not part of your function to tell me what you think of the idea?—A. Oh no!

Q. It is simply a matter of the legality of the procedure?—A. That is right.

By Mr. Enfield:

Q. I wonder if Mr. Varcoe could review briefly for us the constitutional law under the purview of which we purport to pass the Small Loans Act and similar acts.—A. First of all, interest is a subject matter assigned by section 91 of the B.N.A. Act to parliament. I do not know whether your question is directed to asking what is the constitutional basis of the present Small Loans Act—

Q. Yes, with particular reference to the limitations which exist on the activity we can indulge in so far as this type of enactment is concerned.—A. In 1939 the device was resorted to of fixing the over-all cost of a loan. The idea behind that was, first of all, that everything that is paid to the lender by the borrower, apart, of course, from the principal, is interest. What the lender does with that, and how he disposes of it, does not make the sum which he receives any the less interest. Now interest is, as you know, the return made to the lender for accepting the risk of the loan and for compensating him for the use of the money lent. That was the first basis we had in mind when we prepared this legislation in 1939—everything which the borrower pays is interest, no matter how the lender may break it down, and suggest that it is for this and that, chattel mortgage charges, and so on. In case that did not cover the whole field of these charges we said, secondly, that when you fix the cost of the loan, accepting the view that there might be some items in there which are not interest, then you are nevertheless regulating the interest because you fix the maximum of 12 per cent, or whatever it is, and if any part of that is something other than interest you are nevertheless regulating interest by reference to that. In other words you say: there is a maximum of so much, and if the collateral charges are high, then the interest ingredient is low; if the collateral charges are low the interest rate is high, and so you are regulating the interest in that sum by reference to the collateral charges. The third line of reasoning was that to charge more than the rate fixed by the statute is oppressive to the lender and is therefore within the criminal law.

By Mr. Knight:

Q. I wonder if you could define for me the term "carrying charge" as applied to people who are selling things "on time"—mail order companies, and so on. So far as the customer is concerned I agree it is interest, and I think these other charges should be computed as interest, because what the borrower is concerned about is the cost to him of buying an article or making a loan. But from the legal standpoint, what is a carrying charge?—A. The expression is not a technical one—it might be defined according to different standards; there might be different forms. I would not like to offer a definition without having seen the context in which it occurs.

Q. Is it not true that where the law restricts the amount of interest as such, there are certain firms—I do not know whether they are in the lending

business or in the business of the sale of goods—who charge the limit, so far as interest rate is concerned, and then add thereto the amount of a carrying charge which in aggregate is tantamount to imposing a considerably higher cost on the consumer or the borrower than the law allows?—A. You are referring to some other line of business than the making of small loans?

Q. I am. I am referring to those businesses which make a practice of selling articles on instalments, and that sort of thing.

The CHAIRMAN: Did you have a question, Mr. Knight—I was not sure.

Mr. KNIGHT: That was the question. Perhaps I did not make it clear. I asked the witness if it were not true that certain of these businesses, when the rate of interest they may charge is restricted by law, are charging what is virtually an increased rate of interest by the addition of what are known as carrying charges, with the result that the cost to the buyer or to the borrower is, in the aggregate, increased.

The WITNESS: I am afraid I am not familiar with the methods whereby these businesses are carried on, Mr. Knight.

By Mr. Knight:

Q. Let me put it this way: would it be legal, for example, for a mail order firm, which is restricted legally as to the rate of interest it may charge, to impose sufficient carrying charges in addition to the interest on, say, \$20 worth of goods as to enable it to collect, in fact, 58 per cent on its money?—A. Well, I do not know how they define the carrying charge; I do not know.

Q. That is what I was trying to get at, if I could have had a definition of “carrying charge” earlier on. I am just asking for information, and the chairman will put me right if I am not within the limits of the field which we are examining now.

By Mr. Quelch:

Q. Is there any limitation on interest charges made by companies selling goods on the instalment plan?—A. None that I know of, in the sense of limiting these so-called carrying charges.

Q. It would come under federal jurisdiction, would it not?—A. I do not know. I would not want to give an opinion unless I saw an actual example of the carrying charge.

By Mr. Henderson:

Q. Would not competition bring those carrying charges down?—A. I am not an economist. I think it would, but I do not know.

By Mr. Quelch:

Q. What about cars? When cars are financed that would come under federal jurisdiction—the interest charges—would it not?—A. The interest charges? Yes, sir.

By Mr. Regier:

Q. Is there any federal law that limits a department store—supposing the unpaid balance of an account is \$20, is there any law which prohibits them from adding a carrying charge of \$2 and having the sum repayable in four or five months time?—A. None that I know of.

Q. There is no law which prevents that.

The CHAIRMAN: He did not say there was no law. He said he did not know of any law. It is possible there could be a provincial law.

The WITNESS: There might be a provincial law. There is no federal law that I know of.

Mr. CRESTOHL: I think it would be helpful to members of the committee if you could say a word in explanation of the constitutional position with regard to the provincial governments having jurisdiction over acceptance corporations, which may be regarded as involved in some form of lending of funds or charging of interest, as it conflicts with the federal constitutional rights under section 91 of the B.N.A. Act.

The WITNESS: I think all I can usefully say about that is that parliament has jurisdiction over interest, and the provincial legislatures have jurisdiction over property and civil rights, which includes contracts of sale.

By Mr. Crestohl:

Q. Would not discounts, for example, and contract of sales be another form of interest?—A. Yes, discount is a form of interest.

Q. Is there not some conflict there which makes it difficult to coordinate the various powers exercised, because they are both a form of interest, whether it is the case of a money-lender under federal legislation or of a discount under provincial legislation.—A. There is no doubt that parliament could legislate to restrict the rate of discount or interest in those transactions but whether parliament could extend its regulation to cover something else called “carrying charges”, I cannot say without a definite proposal being before me.

Q. I am not concerned with carrying charges. I am concerned with a straight discount charge which is, indirectly, interest.—A. Parliament could deal with that.

Q. You mean the federal parliament?—A. The federal parliament, yes.

By Mr. Hollingworth:

Q. In other words we could legislate regarding these discount houses as well as the small loans companies?—A. Discount is simply a form of interest. That has been held over and over again by the courts.

By Mr. Enfield:

Q. Does parliament have the constitutional authority to modify a term of a conditional sales contract?—A. The rate of interest or discount could be regulated, certainly.

Q. The regulation now is in the Interest Act. Section 2 of that act states:

Except as otherwise provided by this or by any other Act of the Parliament of Canada, any person may stipulate for, allow and exact, on any contract or agreement whatever, any rate of interest or discount that is agreed upon.

A. Parliament could repeal that and say you could not contract for more than 5 per cent, or whatever it might be.

Q. So the conclusion of the argument, then, is that any charges whatsoever under a conditional sales agreement by way of prior discount could, if we wished be regulated by an act.—A. That is correct.

Q. So these carrying charges could be regulated?—A. I am not sure what is meant by that.

By Mr. Crestohl:

Q. The committee has been told, I think, that some of the lending companies, if, to use a colloquialism, they “find the going difficult”, could retire their funds from the lending business and utilize them, for want of a better term, in the discount business in acceptance transactions—the business generally carried on by acceptance corporations. They could retire to that because that would fall within provincial rights, but actually they would still be in the

lending business, and, if I understand you correctly, you state that parliament has jurisdiction to regulate the rate of interest on that basis, even within a province.

The WITNESS: Certainly.

Mr. KNIGHT: Mr. Chairman, on a point of order, my recollection was that the statement which was made was to the effect that they would move into other and more profitable businesses—I do not think acceptance corporations were particularly mentioned.

Mr. CRESTOHL: I think that was indicated; I presume it could be that.

Mr. PHILPOTT: If I take out a mortgage, they charge me so much interest on the mortgage and they also charge me a fee for drawing the thing up. As I understand it, two elements of cost enter into these loans with which we are now concerned. A service fee is charged for drawing up the mortgage—

Mr. CAMERON (Nanaimo): Legal fee—search of title—

Mr. PHILPOTT: All right, call it a legal fee, but in the case of the small loans companies, or where time payments are made on such articles as vacuum cleaners, two elements of cost arise. What we are concerned with, I think, is whether we have any legal power over instalment buying which includes both of these costs—in other words can we regulate carrying charges if carrying charges can be shown to include both the interest rate and the cost of making the loan or, if you like, of carrying it?

The CHAIRMAN: Would your ancillary powers in connection with your jurisdiction over interest rates include service charges; for example, insurance costs?

The WITNESS: That is the theory we adopted when the bill was drawn up nearly 20 years ago, and it has not been held invalid by any court.

By Mr. Fulton:

Q. Has it ever been challenged?—A. I think it was challenged in a small prosecution at Sault Ste. Marie or Sudbury, but it never got beyond the magistrate's court.

The CHAIRMAN: No court of record?

The WITNESS: No.

By Mr. Thatcher:

Q. I would like Mr. Varcoe to explain precisely what the powers of parliament would be with regard to the regulation of advertising. As you probably know, Mr. Knight has a bill, No. 213, which to some extent would regulate advertising. Would you say whether you think that would be constitutional?—A. In answering Mr. Knight's question I said that I thought clause 2 of his bill was good, for the reason that it is limited to these dominion companies. It does not apply to money-lenders generally—it is simply a regulation of the method under which a dominion company carries on its business.

By Mr. Henderson:

Q. What effect would that have on the licensees?—A. Well, this paragraph 2 of the bill of Mr. Knight's would not touch them at all because it is limited to the dominion companies by its very terms. Whether or not it could be applied to them by another amendment I would have some doubt, because I do not see what it has to do with the regulation of interest.

Q. If we were to consider advertising, Mr. Knight's bill has a lot of merit in it. If we consider advertising as a cost of operation, or expense of operation, would that not put it entirely within the provincial jurisdiction?—A. I thought so, yes.

By Mr. Philpott:

Q. I do not understand that.—A. Parliament has power to incorporate what we call dominion companies. In doing so it can stipulate upon what terms those companies will carry on business. It can restrict their activities in any way that it pleases. It can also say to a dominion company, "you must carry on your business in a certain way with respect to advertising". But that is a very special case and does not apply to other than dominion companies.

By Mr. Thatcher:

Q. But aside from these small loans companies we are dealing with others in the jurisdiction of parliament, and you can tell them what they can spend for, or what the nature will be of, the advertising?—A. I would think so. I cannot see any constitutional problem involved. The dominion company is in the same position, under the control of parliament, as, let us say, a chartered bank. That is, parliament has complete control over its activities and can say how it may carry on its business.

Q. There has been some concern expressed in the committee that some of these companies might, by some chance, indulge in, perhaps—not false advertising—exaggerated advertising or something of that nature. Do you think that section 306 of the Criminal Code today might be sufficiently comprehensive to prevent that?—A. I would have to have a factual statement of what the advertiser is doing.

Q. Do you have section 306 of the Criminal Code? Would you look that up and give me an opinion on that later?—A. Yes, but I would like to know more precisely what are the facts to which you are objecting.

Q. I am just wondering if we could control false advertising by that section without having to enact a new section?—A. False advertising could be and is prohibited under the Criminal Code; there is no doubt about that.

By Mr. Knight:

Q. I take it that Mr. Thatcher means deceptive advertising. If it is proven to be deceptive advertising—which I think sometimes it is—what is the jurisdiction?—A. I have not looked at the Criminal Code and do not know exactly what the section says; but parliament undoubtedly can make it a crime to publish deceptive or false advertising.

By Mr. Thatcher:

Q. I was wondering if we have that power now without having to have additional legislation?—A. I would have to look at the Criminal Code.

By Mr. Hollingworth:

Q. The statement was made yesterday that if the companies were incorporated under a provincial charter that perhaps Mr. Knight's bill would not be unconstitutional. Would the same apply in the case of a loan company or finance company under the jurisdiction of the Department of Insurance?—A. Those are companies under parliamentary jurisdiction.

Q. I have been talking about a company incorporated under the provincial act which, I suppose, has to come to the federal department for a licence.—A. I am not sure that they attempt to regulate the provincial companies; but if it is a provincial company you could not get at it by this device.

Q. Even if it obtained a licence to operate from the Department of Insurance?—A. That licensing, of course, is itself somewhat doubtful.

By Mr. Henderson:

Q. Have there been any prosecutions, to your knowledge, for deceptive advertising in the loans business to date?—A. I have not heard of any.

Q. What about the patent medicines—

Mr. FULTON: The Food and Drugs Act.

By Mr. Henderson:

Q. The Food and Drugs Act.—A. They are being prosecuted under that act all the time.

Q. Where do you get your authority to prosecute under that act?—A. The criminal law.

Q. Under the section mentioned?—A. No. We regard the Food and Drugs Act itself as a criminal statute.

Q. What would the prosecutions be for?—A. The prosecutions, under the Food and Drugs Act, would be for either false advertising or for selling an injurious product.

Q. Would that also include deceptive advertising?—A. I would have to look at the act.

Mr. KNIGHT: Mr. Varcoe, I wonder if you recollect the case—and Mr. Fulton will recollect it because both he and I had something to do with the present regulations—in respect to the falsification of bacon wrappers by which there were red stripes upon them which made the meat look as though it were lean meat when in fact it was fat meat. How was that done? We were told by the Minister of National Health and Welfare that a directive had gone out to the trade. I have never inquired as to what “directive” means. In any event, they have stopped that practice.

The CHAIRMAN: I hesitate to stop any member, but are we not getting a bit astray?

Mr. KNIGHT: I wonder if a directive would have the same effect on these people, since this is a situation which is just as bad as the one concerning the packaging of bacon.

Mr. FULTON: I had occasion to look up the Food and Drugs Act and I found that it contains its own provision against this advertising.

By the Chairman:

Q. The question here is whether we could control provincial companies in so far as their advertising is concerned and be constitutionally correct. I think that the question boils down to this, that with your legislative jurisdiction over interest could you control advertising, to a limited extent, of provincial companies by forcing them to agree to disclose their rate of interest, or things of that nature?—A. I am doubtful about that. I do not see much difference between controlling a provincial insurance company and any other money-lender that would come, for example, within Part I of the Small Loans Act. I should think that any regulation of the business of that company, with respect to what it should publish in the way of advertising, or should not publish, would be a provincial matter.

By Mr. Enfield:

Q. Mr. Chairman, could I pursue a little further the point raised by Mr. Hollingworth? Suppose you have a loan company or a lending company that has obtained a provincial charter, not dominion, is incorporated as a company and then applies for a licence under the Small Loans Act; to what extent can we regulate such things that do not normally come within our constitutional jurisdiction such as advertising, location of office and so on?—A. I do not see how you could regulate those things. I do not see how any such regulation as that could possibly be in relation to interest.

Q. I see.

By Mr. Thatcher:

Q. On that point I think Mr. MacGregor said that in the United States, in order to prevent congregations of offices, they have some kind of a licensing system which I think he called a rule of "convenience and advantage", and also I believe he said that we would not have the constitutional right to do that. What would be the reason for that?—A. Would you repeat your question, please.

Q. Mr. MacGregor said at page 32 of his statement that in the United States they license the various lending offices and that in order to obtain a licence those offices have to prove what he called "convenience and advantage". Is that not correct, Mr. MacGregor? I believe that he also expressed an opinion that this parliament would not have the legal right to make such a requirement. I would like to know if that is correct and if so what are the reasons.—A. In the United States they do so many things under what they call their commerce clause which we do not have in this country. Any person who is engaged, apparently, in the United States in a trade or business that extends beyond the limits of a single state seems to come within the jurisdiction of congress in respect to regulation in almost every regard.

Q. But in any event the Canadian parliament would have no right to regulate the number of offices or the place where a company could establish offices?—A. Not unless it was a dominion company.

Q. Would it have that right if it were a dominion company?—A. I think so. It is a creature of parliament and parliament can restrict it in any way it pleases.

Q. When you say "dominion company", that would include pretty well all these companies which we are studying?—A. Well, yes.

Mr. CAMERON (Nanaimo): Just the four.

By the Chairman:

Q. Mr. Varcoe, I have always been interested in section 5 of the Small Loans Act. Supposing you had a provincial company incorporated in the province engaging in the money-lending business charging no larger rates than are permitted by the Small Loans Act but which refused point blank to take out a licence, what would be the constitutional position?—A. The substance of section 5 simply amounts to this, that any person who complies with that section may charge 12 per cent interest. There is a provision that any person who is lending money—if he wishes—may charge more than 12 per cent but must then have a licence. That is the point.

Q. Yes.—A. He has to have a licence so, in substance, it is a provision that relates to interest in this way that it grants permission to a licensee to charge more than 12 per cent.—Q. Yes. Supposing he charges 2 per cent up to \$500 but refuse to take out a licence?—A. 2 per cent a month?

Q. Yes.—A. Well, he would have to be prosecuted; that is all.

Q. But do you prosecute him successfully? He has complied with the interest rate permitted by the Small Loans Act. Your legislative jurisdiction is over interest and you are assuming that this ancillary jurisdiction permits you to prosecute someone who refuses to take out a licence.—A. There must be a provision here.

Q. There is a provision all right; but the question is, do you win your case?—A. I think we would. It has not yet been tried out.

By Mr. Hollingworth:

Q. In connection with this question of advertising, there is one thing on which I am still not clear. I understand, Mr. Varcoe, that if it were a company incorporated under the dominion Companies Act, then possibly this advertising bill of Mr. Knight's might be constitutional, at least that is what I inferred;

but if it were incorporated under an act of parliament, would there be a difference?—A. There would be no difference. Any company that is incorporated by parliament, or under an act of parliament, would be in the same position. There might be some point beyond which parliament cannot go in regulating the contracts of a company, but where it is put right into the charter of a company that it must carry on business in a certain way, then I would think that is different.

Q. But, as I recall it, when these different companies are incorporated by act of parliament specific rules are not laid down under the Companies Act, but it may be, for example, that the directors have to be Canadians. But if there is no specific direction incorporated in this act of parliament, will parliament have the ancillary jurisdiction?—A. I am not sure that I am following you. Are you talking about a company that would be incorporated under the Companies Act?

Q. No. I am referring to a company which is going to be incorporated by act of parliament. I am wondering whether Mr. Knight's bill is constitutional. That is what I want to find out.—A. I think it is; yes, I do. It relates to companies that are incorporated by parliament.

By Mr. Follwell:

Q. What you are saying is that parliament, then, can regulate every action of every dominion company?—A. I will not say every action. I will stick to this item here. I think that parliament could say that the company must carry on its business as Mr. Knight has provided for in the advertising field. I think I should offer this explanation. I was looking at clause 2 of Mr. Knight's bill. It is that part that I have been dealing with and not clause 1.

By Mr. Michener:

Q. Mr. Chairman, are we dealing with Mr. Knight's bill today? I thought Mr. Knight was in a hurry to get on with Bill 51.—A. What I said about Mr. Knight's bill related to clause 2 and not to clause 1.

By Mr. Thatcher:

Q. Then is clause 1 not constitutional?—A. I have already expressed the view elsewhere that I thought clause 1 was probably not good.

Mr. KNIGHT: Mr. Chairman, I do not know why Mr. Michener remarked as to my being in a hurry to get on with this bill, and I do not know where he got the impression that I was in a hurry. I might say that he certainly has not shown any hurry since I have been here over the last few sittings.

The CHAIRMAN: I do not think that these private arguments are helping the committee in any way.

By Mr. Follwell:

Q. Then, Mr. Chairman, I would like to ask Mr. Varcoe, if parliament passes a bill such as Mr. Knight's, to regulate the extent of advertising which any dominion incorporated company can do, then, Mr. Varcoe, is it within the realm of parliament to legislate on any phase of the companies' operation? Parliament could regulate as to how much money the companies could pay their directors, employees, labourers, or as to anything else?—A. Yes. When you get into the field of contracts generally, there may be a question about that. Generally speaking, I think that the exclusive power of parliament deals with these matters relating to the powers of the company, and you will notice that clause 2 of Mr. Knight's bill incorporates this proviso relating to advertising in the corporate powers of the small loans companies. I do not want to go beyond that in saying what parliament can do generally about contracts between a dominion company and any person with which it is dealing.

Q. What, in your opinion, as a very learned counsel, would be the result if parliament decided to legislate many pieces of legislation limiting, as I have indicated, the wages that are to be paid, and the expenses, the number of offices, and so on, with respect to all dominion companies? Is this what would happen; that you would have very few people applying for dominion charters and that instead of getting one charter from the dominion, they would get ten, one from each province in the Dominion of Canada? Could it lead to something like that?—A. That is a pretty general question to ask, I am afraid. I do not think it has ever been held that parliament could regulate, for example, the wages that a dominion company can pay as distinct from anybody else.

The CHAIRMAN: Would your jurisdiction not be negative? That is, you would refuse to incorporate unless they complied?

By Mr. Follwell:

Q. That is the opinion which I was trying to get; that by pursuing, say, a host of bills such as Mr. Knight's that we might put all the dominion companies in a position where there would not be one company in Canada which would want to incorporate on a dominion basis, and that they would prefer to go to the provinces and have ten incorporations in Canada instead of one?—A. I think in some fields, that is probably done. I do know that there are lots of companies which operate, by one means or another, in more than one province, if that is what you have in mind.

Q. Yes. They operate, but I presume that duty do not do it because of the fact that the legislation is burdensome?—A. I think parliament has, as regards dominion companies generally, restricted its legislation to those matters that have to do with the status of the company, its financing corporate powers, and so on.

Q. In other words have restricted it pretty much to some specific purpose and not more general purposes under the act?—A. It is hard to generalize. You could take, for example, the banks. They are dominion companies really. Their business is pretty completely regulated by the Bank Act. But in the case of other dominion companies the situation is slightly different. No one has yet been able to draw the line—or no one has yet attempted to do so at any rate—of distinction between a dominion company and, let us say, a bank, having regard to the powers of parliament to regulate.

Q. Speaking of banks, Mr. Varcoe, we had the banks before this committee when it considered the Bank Act, and we were given information that the Bank of Commerce operates a personal loans business which I think is still thought by some people to be beyond the legal authority under the Bank Act in charging a 6 per cent discount rate, or carrying charge, on instalment loans. Now, would you give us your opinion as to whether or not they can legally operate on the basis on which they are operating?—A. I do not know how they are operating. I have not been informed as to that.

Q. I will be only too pleased to tell you and I am sure that the committee will bear me out on this. We were told that the Bank Act has a maximum rate of 6 per cent. Is that right?—A. Yes.

Q. Six per cent per annum; but we understand that the Bank of Commerce are making what they term personal loans and, I think, only in the personal loan field. They are charging a 6 per cent interest rate per annum on an amount which, over a period of a year, amounts to, I think, about 10.27 per cent—

Mr. Quelch: 10.46.

Mr. Follwell: 10.46. I understand that the other banks in Canada are not doing that because they believe that it is not legal under the Bank Act. The Bank of Commerce said here, if I remember it correctly and it is in the

record, that they had a legal opinion that they were perfectly within the act. Now, you are an officer of the crown in the Justice Department and I am interested, as I am sure are the other members of the committee, in knowing whether or not their legal opinion is right.

Mr. PHILPOTT: Mr. Follwell, you omitted one point. Under the Bank of Commerce system the borrower has to repay by monthly instalments.

By Mr. Follwell:

Q. I understand that they do. So that becomes the effective rate, 10.46 per cent, and yet you have just said that the Bank Act limits it to 6 per cent.—A. I do not know how these transactions are carried on. I could not undertake to review these opinions. I have heard that there were some opinions given which were contradictory of one another, but I never was asked to review them. I do not think it would be proper for me to do so without having at least all the facts before me.

Mr. CAMERON (*Nanaimo*): I think that if we would look at the evidence we would find that the inspector general of banks was asked a question on this point and answered that he had not yet had a case presented to him that led him to believe that he should contest the matter in the courts.

The CHAIRMAN: You mean that the Bank of Commerce has never been prosecuted?

Mr. CAMERON (*Nanaimo*): The inspector general of banks felt that there was no case for him to intervene.

By Mr. Follwell:

Q. What you are indicating is that this may very well be beyond the legal rate but that until it is contested there is no decision on it?—A. Yes; that is a fair way of putting it, I think. There is always room for differences of opinion in these matters. I do not know what the consideration was that persuaded one bank solicitor to say you can do this and another to say you cannot.

Q. Apparently every other bank solicitor except the solicitor for the Bank of Commerce said that you could not do it.

Mr. QUELCH: I do not think that the other banks went that far. I thought that some of them said that they did not desire to go into that type of business; they did not suggest that they refrained because they thought it was illegal.

The CHAIRMAN: I think you are wrong. I think it was brought out that there were two directly opposed legal opinions; one for the Bank of Commerce permitting them to charge 6 per cent discount, and the other a simple rate of 6 per cent.

Mr. FOLLWELL: Mr. Chairman, I have been very interested to know just where we would stand on that 6 per cent.

Mr. FULTON: Take out a loan and then prosecute them.

Mr. FOLLWELL: Perhaps the committee should take action through Mr. Varcoe to get a decision on this. However, I suppose we would only get a judge's opinion which is just one man's opinion in any event.

Mr. THATCHER: We could let the Bank of Commerce do what they are doing and let the other banks get into the same business. Perhaps parliament should pass legislation which would make it certain.

The CHAIRMAN: That is why I have considered this relevant. Otherwise, it seems pretty irrelevant.

By Mr. Follwell:

Q. There is one other question arising out of a question asked by Mr. Quelch. I think the question was this—and Mr. Quelch can correct me if

I am wrong: when automobiles are financed and finance charges are charged on automobiles—I think Mr. Quelch said—was there legislation limiting the interest that could be charged on this transaction, and I understood you to say, “yes, there was”.—A. I said there could be; I did not say there was.

Mr. QUELCH: I asked whether such action would be within federal jurisdiction.

By Mr. Follwell:

Q. I wondered if there was legislation and, if so, what it is. I was looking at the Interest Act here.—A. The only federal act which would be applicable would be the Interest Act, and that simply says that you can charge what you please.

Q. That is the point which I wanted to have clarified. I thought you indicated that there was legislation which limited the amount of interest, or carrying charges, which could be charged on the financing of an automobile?—A. I intended to confine myself to saying that there was power to enact legislation which would limit the rate of interest charged in the circumstances. I wanted to avoid saying what the carrying charges should be because I do not know what is meant by that.

Q. Mr. Enfield and I were looking at section 2 and we saw there that with respect to automobiles or real estate that the interest could be on whatever the agreed basis is.—A. Yes.

Q. That is a fact?—A. Yes.

By Mr. Crestohl:

Q. Mr. Chairman, I would like to clarify something doubtful in my mind. If I understand correctly, section 91 gives you certain jurisdiction over interest?—A. Yes.

Q. Then the federal government proceeded to enact an Interest Act, in virtue of the power given it under section 91?—A. That is right.

Q. Following that, a Small Loans Act was enacted in which the rates of interest were fixed, again by virtue of section 91?—A. That is correct.

Q. Would you then say that parliament would now have the jurisdiction to enact legislation to affect loans beyond the Small Loans Act?—A. You mean other loans?

Q. Other loans beyond the Small Loans Act.—A. Oh, yes.

Q. In other words, parliament could now legislate an act similar to the Small Loans Act called a “huge loans act” or “big loans act”?—A. Yes.

Q. Going beyond \$500?—A. Yes.

Q. Does that not lead us to the conclusion that interest in any guise on small loans or large loans is exclusively a matter for the federal parliament by virtue of section 71 of the B.N.A. Act?—A. That is right.

Q. When provinces proceed to enact legislation which makes possible the charging of interest or discount rates—which to a certain extent is simply another form of interest—is that not in conflict with the federal jurisdiction?—A. Yes, sir. That would be in conflict. I do not know if there is any such legislation.

Q. Take these acceptance corporations.—A. As far as the acceptance corporations are concerned, they do not do what they are doing by virtue of any provincial law, but they do it by virtue of the fact that there is no federal law.

Q. I see.

The CHAIRMAN: Are there any further questions?

By Mr. Enfield:

Q. Just to complete the picture, Mr. Varcoe mentioned earlier that he thought that the dominion would have the power to regulate the cost of loans

including the registration fees and so on, as if they were included with the interest, and he did say that it had never been challenged, but there was one small case, he thought in a magistrate's court.—A. Yes.

Q. I would say that section 2 of the present Small Loans Act—I do not think it is amended; yes, it is amended by the new bill which defines "cost" of the loan, and it indicates what charges are included as follows:

(i) ...whether it is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage fees, or recording fees, or is claimed as fines, penalties or charges for inquiries, defaults or renewals, or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed,...

Would you say that if those charges were challenged, possibly it could be found that we would not have the jurisdiction to include such costs?

—A. There is that possibility, yes.

Q. You say there is that possibility?—A. Yes.

Q. There is no magic in the Small Loans Act?—A. No.

By Mr. Follwell:

Q. Do I understand it correctly that with respect to this clause which I shall read again as follows:

whether it is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage fees, or recording fees, or is claimed as fines, penalties or charges for inquiries, defaults or renewals, or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed—

Do I understand that if a licensee—or rather if this act were passed, or when it is passed—if the licensee should decide that he should not be saddled with any one of these charges as outlined or covered in the interest rate which is permitted to be charged, could he then take action?—A. That raises a question which I think should be answered first, and it is this: if a licensee applies for and obtains a licence, it may be that he thereby precludes himself from challenging the validity of the law under which he has taken out his licence. But if, on the other hand, the applicant is not a licensee, he might; that is, some person may be able to challenge the validity of this, and it is conceivable that it would be over-ridden.

The CHAIRMAN: That was not your case.

The WITNESS: No, no, and it is not now, but one cannot predict what the courts will decide. This is a border line case and everybody realizes it.

By Mr. Follwell:

Q. You are indicating that if a man applies for a licence then he is expected to accept the terms set out under the licence which he gets. Is that right?—A. I think that is correct, but that too is something that has never been conclusively decided in this country. In the United States, however, it has been held that if a person takes out a licence under any statute, he is thereby precluded from challenging the validity of that statute. But we have never had such a decision given in this country to that effect. However, there is a possibility.

Q. There is no legislation apart from that decision in the United States?—A. I recall a case in the United States, that of the licensing of a grain elevator, when the licensee later on challenged the validity of the statute under which he was licensed. Some court said that he could not challenge it, that he had estopped himself by his action in taking out the licence.

Q. Was that a Canadian case?—A. No, it was a case decided in the United States. The question has never been decided in Canada so far as I know.

Q. You are indicating that there might be a possibility that some licensee might contest the validity of accepting this clause, even in spite of getting a licence?—A. Any person may challenge the validity of any law or statute because that is one of the civil rights which we have in this country.

Q. Yes, it is just a matter of deciding whether or not he wants to contest it.—A. Yes.

Q. All you were expressing was the argument.—A. We would have to let the courts decide it.

Q. You mean the courts would have to decide whether it is right or wrong.

Mr. CRESTOHL: May I address a question to the chairman?

The CHAIRMAN: I am not the witness.

Mr. CRESTOHL: I mean a question of procedure. Would it be in order to ask Mr. Varcoe and the Department of Justice to give us a written opinion as to whether the procedure followed by the Bank of Commerce is *intra vires* and within the jurisdiction of the Bank Act?

The CHAIRMAN: I think you would find that Mr. Varcoe would adopt the general principle of the Privy Council and refuse to give an answer until he had a specific case in the courts.

Mr. CRESTOHL: I thought there was a specific case in the small loans department of the Canadian Bank of Commerce and in its operations by deducting this charge, within the meaning of the Bank Act.

The CHAIRMAN: I think that question would be outside our terms of reference, which have to do with the Small Loans Act. Perhaps that question would be in order at the next revision of the Bank Act.

Mr. CRESTOHL: All right.

The CHAIRMAN: Much as I would be delighted to ask Mr. Varcoe to solve that problem, I do not think it really is before us.

Mr. CRESTOHL: That is why I addressed my question to the chair.

The CHAIRMAN: I would rule, no.

By Mr. Quelch:

Q. If we are going to claim that the operations of the small loans branch of the Bank of Commerce are illegal on the grounds that the discount rate is embodied in the form of interest, then it may also be charged that every other bank is at fault in that respect. I know that in western Canada over a number of years it was the practice to discount a loan and to charge the maximum rate of interest in addition. For example, if you went to the bank to borrow \$100, you would pay 8 per cent interest but you would only receive \$92 because you had paid your interest in advance.

Therefore, if we claim that the Bank of Commerce may be operating illegally, then we must admit the fact that every other bank was operating illegally in western Canada in the small loans business. I do not know why they should hold up the practice of the Bank of Commerce as being a unique case, because they have already done it on a different basis; they have been charging a discount rate for instance on the maximum rate of interest, but I do not know whether they are doing it now or not.

By Mr. Philpott:

Q. May I offer one observation: if we are going to have all this discussion and this harping back and forth to the Banking and Commerce Committee of two or three years ago, when the high priced lawyers expressed some doubt as to the legality of the case or the procedure, why single out in the committee

so strongly in the way of disapproval the small loans system operated by the Canadian Bank of Commerce, because I think it was made clear at the time that if its legality had been challenged, it would have been quite simple to have changed the Bank Act to make sure that it was legal.

The CHAIRMAN: I think that was the general feeling of the committee. Are there any further questions?

Mr. FOLLWELL: As I was the one who introduced the subject in the first place. I think I should make it perfectly clear that I am suggesting that we should get an opinion as to whether this bank is operating illegally, and that we have never before in this committee had the services of Mr. Varcoe, and that it might be well to have an opinion from him if he cares to give it. Mr. Quelch says that banks in the west have been taking a discount of 8 per cent.

Mr. QUELCH: In the days before the rate was changed from 8 per cent to 6 per cent, it was the common practice to discount loans, and I can say that from personal experience. If I went to a bank to borrow \$100 and the rate was 8 per cent, I would get only \$92, because I would have to pay the 8 per cent in advance. That was the general practice in western Canada years ago. I am not speaking of the immediate present, but I am surprised that any bank would suggest that the practice of discounting was illegal because the banks themselves have been operating in that way, illegally or not, in the past.

By Mr. Thatcher:

Q. I think it might be rather a good idea for the committee if Mr. Varcoe could give us that opinion, because the Bank of Commerce today is making small loans at an interest rate which is considerably under that of the small loans companies; and if other banks could be encouraged to think that this practice was legal, it would set up competition across the country.—A. I am afraid that the other banks would not feel bound by my opinion.

Q. They might get into the small loans field to a greater extent than they are doing it at the present time.

By Mr. Fulton:

Q. Why not make up a reference? Isn't that the only proper way?—A. Certainly.

Mr. THATCHER: It seems to me that the committee should give some encouragement for the banks to make small loans.

The CHAIRMAN: Let us be realistic. If the other banks want to go into that sort of business there is nothing to prevent them.

Mr. THATCHER: They told us years ago that they were afraid it would be illegal.

The CHAIRMAN: That thought apparently does not disturb them today. The Bank of Commerce is carrying on under that principle.

Mr. CRESTOHL: It would help the situation if the committee would recommend the preparation of a stated case to be submitted to the Supreme Court on this very question.

The CHAIRMAN: I do not think that falls within the terms of reference of Bill 51.

Mr. CAMERON (Nanaimo): I do not think so.

Mr. FOLLWELL: What the committee is trying to do is to make money available to the people of Canada at the least possible expense. I think we should be interested in bringing out all the information we can get for that purpose.

The CHAIRMAN: I think so, but I do not think it falls within the terms of reference of Bill 51. Are there any further questions?

By Mr. Fulton:

Q. Mr. Chairman, I have two questions. Are you aware of any legislation which attempts to regulate indirectly by control perhaps the carrying charges of the lending companies or the discount companies or the acceptance companies, what they may charge?—A. No, I am not aware of any.

The CHAIRMAN: You are thinking of the three provinces referred to in Mr. MacGregor's evidence?

Mr. FULTON: No, I was asking my question on the basis of the discussion which had taken place earlier today.

The CHAIRMAN: I think, if I recall Mr. MacGregor's evidence correctly, he said there were three provinces in which there was legislation having to do with acceptance corporations. Do you remember whether it governed the interest on these carrying charges, that legislation?

Mr. MACGREGOR: The three provinces I am aware of, which have legislation in connection with conditional sale agreements, are New Brunswick, Quebec, and Alberta. The law in Alberta does nothing more than endeavour to ensure that the carrying charges, whatever they may be, are clearly stated.

The legislation in Quebec and in New Brunswick, if I recollect it correctly, deals with the minimum down payment, and the Quebec legislation deals also with the charges. I think that both New Brunswick and Quebec have clauses relating to the duration of payments.

By the Chairman:

Q. I would judge, according to your opinion, that the province of Quebec legislation governing the charges would be constitutional?—A. I would want to see that legislation before expressing any opinion about it.

Q. Quite.

By Mr. Fulton:

Q. My other question is specifically on the reference to one of the amendments in the bill contained in clause 1, which I shall read, as follows:

(a) "cost" in relation to a loan, means the whole of the cost of the loan to the borrower,

(i) whether it is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage fees, or recording fees, or is claimed as fines, penalties or charges for inquiries, defaults or renewals, or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed...

Those are the words I have particularly referred to. What would your opinion be, Mr. Varcoe? Would it be your opinion that it is within the competence of parliament to legislate for these companies under the heading of section 91, which gives us jurisdiction over interest so as to cover, or to make it illegal for a lending company to conclude a separate agreement with the borrower

as to whether or not his loan would be covered by insurance, that is, an agreement which is outside the terms of the loan agreement itself?—A. You ask me if it would be within the competence of parliament?

Q. Yes.—A. If that is your question; I think that parliament could not enact it as a separate law prohibiting the lender from contracting with the borrower to the effect that the borrower must be insured, but that is not this bill, of course; that is not what is done here.

Q. This bill prohibits. Would you tell me this: what is the effect of the bill as it prohibits?—A. As I understand it, the lender would say to the borrower, "Now, I want to have some added security, some more security than just your promissory note." So the lender says, "Will you undertake to take out a policy of insurance on your life so that if you should die before you pay, then the insurer will pay the debt?"

That is what we in the Department of Justice thought was legislation which related to the taking of security, and therefore since the interest rate is not only compensation for the lending of the money, but—

Q. To cover to some extent the risk?—A. Yes, to cover to some extent the risk, that therefore it was good interest legislation. I think we are right.

Q. Then it would cover only the case where the lender makes—whether it is a rigid rule that he makes, or whether it is a voluntary agreement—the charges to the borrower, the cost of the insurance premium that is taken out, whether the insurance premium is required as a rule, or if it is left to be voluntary with the borrower?—A. I think so.

Q. It should be, and let me put it this way: if the lender said, "Now, having made, or taken your loan, here is your charge, and it is concluded, but I now recommend that you take out an insurance policy to secure yourself."

Then what about that case where there is a separate contract issued through an agency of the lender, or a separate contract, outside the terms of the loan altogether, which was concluded? Could this legislation prohibit that?—A. I think it could. I think it would, yes. We must bear in mind, however, that these insurance contracts are primarily for the benefit of the lender and not the borrower.

Q. I think that is an arguable case.—A. I mean, if the lender himself is paying for the insurance.

Q. Yes.—A. Then it is a selling feature I suppose in the carrying on of his business with the public.

Q. I see.—A. But it is primarily for the benefit of the lender, and I think that the policies are really group policies in that they cover a large number of borrowers.

Q. It is difficult to put it all in legal language, but am I correct in my understanding of this fact that there is an argument that where there is a group policy, particularly under which the borrower is given the option of coming in, that if he comes under it, and the lender charges him for it, that is obviously included within the terms of the amending legislation?—A. May I observe generally before answering that many money lenders have but one source of income and it is the interest that comes to them from the loan.

Q. Yes.—A. And they dispose of that, they have to pay rent for their offices and to pay salaries and so on, and to say to the borrower that he has got to pay something on account of the rent of the lender—that does not make a payment on the loan interest because it is distributed in that way. The lender cannot break down these things and say this is the cost of one thing; and when he comes to that policy of insurance he is taking out a guarantee really, he is insuring himself that the loan will be repaid.

Q. No, no, I meant only in the event of death.—A. In the event of death, that is quite correct. I beg your pardon. It is comparable to an accident insurance policy that he would take out. He might insure his premises against fire, but he could not ask the borrower to pay for that.

Q. I think it opens up an interesting possibility as to how far you can go in the distribution of interest.—A. Well, it does indeed, and I would be against extending it any further than we have to.

Q. This year?—A. I would not say this year, but any time. I would leave it alone, speaking from a constitutional point of view only. I am not speaking about policy.

Q. You think we have gone about as “far as we can go”?—A. Yes.

Q. You think that this is a constitutionally valid piece of legislation?—A. Yes sir.

By the Chairman:

Q. I might add that it was upon Mr. Varcoe's statement given in 1938 that this legislation was passed, and I would judge that he has not changed his opinion.—A. No.

By Mr. Fulton:

Q. But in 1938 it did not include the insurance practice.

The CHAIRMAN: No, but it said “any other charges”.

By Mr. Enfield:

Q. May I refer to part II of the Small Loans Act, section 16, which says:

The Company—referring to the company formed by the Act of Parliament—shall not issue any bonds, debentures or other securities for money borrowed, nor shall it accept deposits.

That may be the question that was troubling Mr. MacGregor when pointing this out on page 6 of his brief that originally the companies were given the power to take money from the public by deposit or to sell debentures. This seems to me to restrict the act rather severely, that is, the dominion companies. There have been very few dominion companies incorporated and it puts them in a poor credit position in so far as the parent corporations are concerned.

What is the principle or the philosophy which made a section such as that in the Small Loans Act? Has there been any move to have it amended or removed?—A. Mr. MacGregor could probably answer that question much more competently. I have not heard of any move to do it, but I would not know about it.

Mr. ENFIELD: Perhaps Mr. MacGregor would care to explore that question for us.

The CHAIRMAN: He did mention it in his report.

Mr. ENFIELD: Yes, it was mentioned previously.

The CHAIRMAN: Do you wish to elaborate on that, Mr. MacGregor?

Mr. MACGREGOR: I recall that the question was raised whether representations had been made to have that prohibition removed and if I remember correctly I replied by saying that there had not been. I also mentioned I think that we have endeavoured to deal with all licensees in the same way, whether provincially incorporated or by special act of parliament.

In other words although this prohibition appears only in part II, and as a consequence applies directly to the so-called special act companies of parliament alone, in practice the prohibition is discussed with other applicants when

application for a licence is made and agreement is reached to refrain from issuing debentures. I am not sure that I mentioned it before, but there are still a few debentures outstanding on the books of one or two licensees dating back to before 1939, when the act was passed. However, those licensees have not issued any new debentures since 1939.

There are, I think, several reasons why it is undesirable for a licensee to be given the power to borrow from the public in this way. In the first place it puts the whole business in a different light or, I am afraid, it would do so in the eyes of the public, more particularly since this business of small loans is regulated by an act of parliament, and the operators under it are licensed by the government.

I would fear that in some cases at least the public might well buy the debentures relying on the fact that this business is supervised by a department of the government.

Dominion loan companies which have the power to borrow debentures—not small loans companies, but loan companies which lend on real estate—are in a different position in that the use they make of the money they borrow from the public is strictly circumscribed by the Loan Companies Act. They may invest their borrowed money only in certain ways, for instance, in the purchase of Dominion, provincial or other high grade securities, and they may lend on real estate subject to certain limitation. But in the money lending business the security is of a different kind altogether and there is also a possibility that the money borrowed from the public might be very great in relation to the lender's own capital. The lender might borrow, to a very large extent, from the public on debentures and carry on a much more liberal lending policy which might result in losses. It would be very difficult to safeguard the investing public. A second consideration perhaps might be mentioned; I think that it would probably encourage the expansion of the money lending business. Whether or not that is desirable is a matter perhaps of policy; but it would probably lead to easier facilities for lenders obtaining money.

Thirdly there is a question in my mind at least: what need there is for a change in this respect at the present time. If there is a need, what is it? It is true that some of the largest small loan companies are obtaining money through their parents which are borrowing on debentures; but there are also Canadian licensees which are doing the very same thing.

The question then arises: is it the smaller lenders for which this power would be desired? If so, I would question the desirability of extending to them the power to borrow from the public, probably only possible anyhow at a high rate of interest which would appear very attractive.

Personally, therefore, I would say that I do not see the desirability of making any change, and that it certainly raises a great many possible difficulties if the prohibition is removed?

The CHAIRMAN: If a provincial company with power to issue debentures should apply to you for a licence, and the officers and the directors were such as to warrant the belief that if a licence were granted to them they would carry on with efficiency, honesty, fairness, and so on, and if they said that they proposed to borrow money from the public by issuing debentures, would you refuse to grant them a licence?

Mr. MACGREGOR: I do not think we have ever had to face that question quite so flatly as that. When an applicant comes to us—and usually, or in many cases they would have yet to become incorporated—we explain that if they are going to seek provincial incorporation, we would like to issue a licence under the act with the same powers that they would obtain if they came to parliament. As I have said before, we ask that their letters patent be confined to the powers set forth in section 14 (e) of the Small Loans Act, and

at the same time we point out to them that the provisions of part II which apply to special act companies and would prohibit them from issuing debentures and so on. I do not recall any cases where the applicant was not willing to go along.

The CHAIRMAN: You are going to meet that when the time comes—

Mr. MACGREGOR: Perhaps that is the best way to put it.

By Mr. Follwell:

Q. Mr. Chairman, Mr. Enfield and I maybe were pursuing a little bit of an aside there when we were saying this to Mr. MacGregor, that the limitation on the raising of money seems to place the Canadian companies in a very unfavourable position. You have indicated, and probably rightly so, that there should be more Canadian control of the companies operating in Canada under this act. Yet apparently the money that is needed to carry on the companies has to come from the parent companies, which seems to be pretty much American money. Now, Mr. Chairman, if I might ask Mr. MacGregor this: in his opinion, if the Canadian company were permitted to issue bonds, debentures and securities and to borrow from the public, is it not quite probable that they would be able to borrow money at a lower rate of interest than they are doing at the present time, which would in turn, or could be in turn be reflected in the interest charged to the borrower?

Mr. MACGREGOR: I would doubt that the smaller ones could borrow from the public cheaper than they can borrow from banks, or friends, or wherever they are getting the money now.

I must also admit that from my own purely personal point of view, there seems to be something slightly repugnant in encouraging the borrowing of money from the public at 5 or 6 per cent for the purpose of lending it again to the poorer public at 20 or 24 per cent. I do not, somehow, subscribe to anything that would further that.

Mr. FOLLWELL: No, but—

The CHAIRMAN: Mr. Follwell, we really are getting back to Mr. MacGregor rather than the present witness. I know Mr. Varcoe is a very busy man. I wonder if we could just complete any questions of Mr. Varcoe.

Mr. FOLLWELL: I think Mr. Varcoe was kind enough to turn this question, by Mr. Enfield, over to Mr. MacGregor, and Mr. MacGregor was kind enough to answer it.

The CHAIRMAN: Perhaps you could save your question for Mr. MacGregor until later, and we could continue with Mr. Varcoe. I am quite sure he is not anxious to come back here tonight.

Mr. FOLLWELL: I think Mr. Varcoe did say that, with respect to this clause 16, he had no legal opinion in regard to whether we should, or should not amend the act, is that right?

The WITNESS: I have no views about it. Are you speaking about section 16 of the Small Loans Act?

Mr. FOLLWELL: Yes.

The CHAIRMAN: You are really asking Mr. Varcoe a question on policy rather than for a legal opinion.

Mr. FOLLWELL: I beg your pardon?

The CHAIRMAN: You are asking Mr. Varcoe a question on policy rather than an opinion, when you ask him if he has any views on that. I do not think it is fair to ask even a deputy minister, who is the highest civil servant, to make expressions of policy.

By Mr. Follwell:

Q. He probably should not be asked to, but if he could, it might be helpful to the committee.—A. Let me say this: I do not know anything legally wrong with section 16. That is all I can say about that.

Q. Maybe I am not putting that question properly. Would there be anything legally wrong with having section 16 eliminated from this act?—A. No.

Mr. CAMERON (*Nanaimo*): There is nothing legally wrong in having the whole act repealed, is there Mr. Varcoe?

Mr. FOLLWELL: I am asking—

Mr. CAMERON (*Nanaimo*): Since Mr. Follwell is now reduced to asking self-evident questions, I think we might move on. He seems to have run to the bottom of his pit.

Mr. FLEMING: Does it lie within the competence of parliament to extend the scope of principle of the Small Loans Act to transactions between merchants and their customers, where sales are made by the merchants to the customers on time?

The CHAIRMAN: May I point out that he has already answered that by giving his opinion.

Mr. FLEMING: I made an inquiry, Mr. Chairman, and I was told it had not come up.

The WITNESS: It is difficult, Mr. Fleming, to answer a question of that kind without a specific project before one. I do not know enough about that business to say categorically yes or no. I do not know what sort of a prohibition, or restriction you would be adopting.

By Mr. Cameron (Nanaimo):

Q. Is such business controlled by the Small Loans Act, Mr. Varcoe?—A. No.

Q. So it is quite irrelevant?

By Mr. Fleming:

Q. The question was whether it lies within the competence of parliament to extend the principle and scope of this act to embrace transactions between merchants and their customers.—A. I will put it this way: If the legislation could be described as true interest legislation then it would be possible for parliament to do it.

Q. You are not likely to run into the situation where such legislation, or at least that subject would run into the old rule so far as interest is concerned. It would have to conform with the federal legislation so far as it relates to property and civil rights within the province, and it would be subjected to provincial legislation as well?—A. That is a correct statement, I should think.

By the Chairman:

Q. I think you did venture the opinion that in respect to a conditional sales agreement, or some form of acceptance transaction, that you could control the interest rate under your federal jurisdiction, which would include the same type of charges that you control in the small loans?—A. Yes. I am now putting it slightly differently, but with to same effect, I think.

The CHAIRMAN: Are there any further questions gentlemen? Thank you very much Mr. Varcoe. You have been very kind in giving your time to the committee, and they all appreciate it.

The WITNESS: It is a pleasure, thank you.

The CHAIRMAN: You will recall, gentlemen, that the sub-committee recommended that the next order of business would be the hearing of the brief by the Canadian Consumer Loan Association. Mr. Cawker is the president of that association. Now, before we go on, I would like to get something clarified. When I ruled that we would hear the brief of Mr. MacGregor and permit questions to be asked as he went along, I did not really know what I was getting into. I had no idea that it would go on for so long. I hesitate to make a similar ruling in this case, because we certainly spent a great deal more time on Mr. MacGregor than I anticipated. I thought two or three meetings would be about the limit. And now, if we adopt the same policy in respect to this brief, I do not know when we will ever finish.

I am going to suggest, therefore, that Mr. Cawker read his brief, and then we ask the questions. I admit that is a reversal of our previous procedure, but I am not sure I would have made the ruling that I originally made if I had realized how much time would be spent on it. I would like to have an expression of an opinion from the committee. If anybody feels that I should follow the same policy on this brief as I did on the previous brief I would like to hear that expressed. Otherwise I propose that Mr. Cawker read his brief, and if necessary make any comments on it as he goes along, and perhaps if necessary refer to expert witnesses on some phase of it. Then, when he is through we could ask our questions. Is that agreeable to the committee?

Mr. CAMERON (*Nanaimo*): Just a moment, Mr. Chairman. When you speak of the brief, I presume you do not mean all these tables? He is not going to read them?

The CHAIRMAN: I presume he would simply refer to the tables as he goes along, and perhaps give examples, if necessary.

Mr. CAMERON (*Nanaimo*): Yes.

Mr. FOLLWELL: Mr. Chairman, there was a matter I think that the committee was very much concerned about, with respect to the Merchants Finance Limited, who were charging, we understood, interest at the rate of 80 per cent per annum on one loan. I think it was the steering committee that were going to decide whether they would have someone from that company appear before this committee.

The CHAIRMAN: I think this committee ruled that someone should be called.

Mr. CAMERON (*Nanaimo*): Someone would be invited?

The CHAIRMAN: The steering committee suggested that that was not the most vital evidence to be presented, and that we preferred to go on with our original program, and then if we had time we would call an officer of this company. In the meantime, I might say, I have had a reply to the letter written by the clerk advising them that they would be called, in which they set out certain information, and in addition certain correspondence between that company and Mr. MacGregor, the superintendent of insurance, and also giving an analysis of loans over \$500. I did not propose to file this at the present time, but if the committee wishes this correspondence filed and printed as an appendix to the proceedings that would be quite agreeable to me. But, it struck me that this evidence should be substantiated by viva-voce. At this stage therefore, I am going to suggest that we do not file it, but bring it up later, if we have time to call this company. Is that agreeable to the committee.

Mr. FOLLWELL: Mr. Chairman, the only reason I raised this is because I just wondered if someone had forgotten about it, or if it had been moving along.

The CHAIRMAN: If any member of the committee feels that this should be filed as an appendix I have no objection.

Mr. FLEMING: It is the only way we will all have access to it, Mr. Chairman.

The CHAIRMAN: I have no profound conviction on the subject. If any member wants it printed, we will have it printed as an appendix.

Mr. FOLLWELL: I must admit that I probably was not listening closely enough to know what evidence you had there.

The CHAIRMAN: It is a letter from the Merchants Finance Limited addressed to me personally. It elevates me to the "Honourable" J. W. G. Hunter.

Mr. FOLLWELL: It what?

The CHAIRMAN: It elevates me to the "Honourable" J. W. G. Hunter. Accompanying it is a copy of a letter dated February 29th, written by Mr. MacGregor to the president of the company and a reply dated March 6, 1956. Attached also is, what they call the "Merchants Finance Limited Analysis of Loans over \$500".

Mr. CAMERON (Nanaimo): Was that date right, Mr. Chairman? You said "March".

The CHAIRMAN: That is the way these copies of letters are dated.

Mr. CAMERON (Nanaimo): I thought we brought this matter up—

Mr. MONTEITH: That was previous correspondence.

Mr. CAMERON (Nanaimo): This is previous correspondence. I thought this was since the matter was raised in the committee, I am sorry.

The CHAIRMAN: Shall I direct the clerk to have this correspondence and the attachments printed as appendices to the evidence of today, so that it will be available to all members of the committee? Agreed.

(See Appendix "A".)

Mr. FOLLWELL: Would you clarify what you have said in respect to this company sending representatives here?

The CHAIRMAN: Yes. In the letter they said that they would like to be advised when they will be needed. It says, "... awaiting your pleasure in the matter of appearing before the Committee".

Mr. ENFIELD: Mr. Chairman, in regard to this brief, I would like it fully understood that we are to ask questions. I have looked through this brief, and it is on a very highly technical subject which could be treated much better by examining it carefully as we go along. Do I understand it that there are to be no questions at all?

The CHAIRMAN: I have been advised that the way the association will be explaining the evidence in here is that in respect to those aspects which are very technical, Mr. Cawker will call on his expert witnesses, his accountants and auditors, and people of that nature.

Mr. ENFIELD: As he goes through it?

The CHAIRMAN: No, to explain it when questions are asked on it.

Mr. ENFIELD: At a later date?

The CHAIRMAN: Yes.

Mr. ENFIELD: After the brief is presented?

The CHAIRMAN: Yes.

Mr. ENFIELD: Then the witnesses will follow—

The CHAIRMAN: It must be recognized that this is a very technical brief, and that Mr. Cawker obviously did not write it all. He had his experts write certain sections of it—his auditors, and people of that nature.

Mr. QUELCH: Mr. Chairman, now that we have completed Mr. MacGregor's evidence, is it the intention to print the complete statement of Mr. MacGregor with today's proceedings?

The CHAIRMAN: No, with last Tuesday's proceedings. That was the direction I gave. I presumed that it would be agreeable to the committee that his statement be printed *in toto* as an appendix to last Tuesday's proceedings, on which day he completed its presentation.

Mr. QUELCH: That is fine.

Mr. FLEMING: What about the tables?

The CHAIRMAN: The tables have already been printed as appendices to the proceedings in which they were tabled. It will be pointed out in the heading of the statement, when reprinted, where those tables have already been printed.

Mr. FLEMING: Yes. For the sake of clarification, perhaps we should put in that day's proceedings a reference to the pages at which these tables were printed earlier.

The CHAIRMAN: I think that would be a good idea. I will direct the clerk to do that.

Gentlemen, it is 25 minutes past five. We were going to stop at 5.30, so I think perhaps we now adjourn and should call Mr. Cawker at 8.15. Agreed.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, there is a quorum. Mr. Cawker, would you come forward and give your evidence, please?

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

Mr. HENDERSON: Mr. Chairman, the present witness will be reading the first part of this brief and I know there are 11 pages of tables included in that first part. I do not know whether you ruled in connection with this brief, but it seems to me that this would be an opportunity for the committee to get the practical operation of the loan business from someone who operates a loan office and, reading this brief inclusive of the tables, it appears that it is merely a digest. I was just wondering if it would not be faster and more reliable for information of the members if, in this first part with this witness before us, —and, I presume, the accountants or auditors reading the last pages—we could be allowed to ask questions as he goes along.

The CHAIRMAN: I think, Mr. Henderson, it has already been decided earlier that, in view of how long it took on the previous brief by permitting that, we would have Mr. Cawker read the brief without interruption, subject to any personal footnotes or additions he wishes to add, and perhaps even from his two associates here, and then, at the end of his reading it, before it is turned over to the auditors who prepared the next part, the committee would put in their questions.

Now, that was what the committee decided.

Mr. CRESTOHL: Would we not be permitted to interrupt for purposes of clarification of the statement that was being made?

The CHAIRMAN: That was the reason I made my original ruling on the other brief; but it turned out to be something which I had not quite foreseen, and instead of just the odd question being asked for the sake of clarification, we did go into it in great detail, rather to a greater extent than I had anticipated. Therefore I thought it would be preferable to have the president read this, with such personal remarks as he cares to make as he goes through it, and if members of the committee would not mind just jotting down anything that occurs to them—it is not as long as the other brief—it is 26 pages and quite a bit of it is taken up with tables and so on—I think we would get along more rapidly in that way, if you would not mind, Mr. Crestohl. That was the feeling of the committee before dinner this evening—unless the committee has changed its view on that.

Mr. FLEMING: How would Mr. Cawker like to present his brief, Mr. Chairman?

The CHAIRMAN: That is perhaps something we might even put to Mr. Cawker. How would you like to present your brief?

The WITNESS: Well, Mr. Chairman, I think, for complete clarification, it would be better to take the points as we go through the brief.

By Mr. Crestohl:

Q. I could not hear that, Mr. Chairman.—A. I feel that for complete clarification I myself would prefer that the interruptions be made and that the points be cleared as we go along.

Q. But only on points for clarification? If it is for details, the chairman can rule the question out of order.

Mr. QUELCH: How do you define "points of clarification"?

Mr. CRESTOHL: More information.

Mr. FLEMING: In view of what Mr. Cawker has said, would this suggestion have any merit; that we take it a section at a time?

The CHAIRMAN: What do you call a section?

Mr. FLEMING: Well, there are headings under the index of contents which indicates a number of them.

The CHAIRMAN: How would the committee like to settle for that suggestion, that we do it that way? For instance, it starts off with "Introduction", then "Legislative Studies", and so on. Then you come to "Operations of the Act," he reads that and you ask your questions at the end of each section. Would that be agreeable to the committee? That strikes me as a sensible suggestion, if it is agreeable. Let us do it that way.

Mr. Cawker, as I mentioned before, is president of the Canadian Consumer Loan Association.

The WITNESS: Mr. Chairman and hon. members, my name is Charles M. Cawker and my home address is R.R. 1, Foxboro, Ontario. My interest in this matter is based on the fact that I am president of the Canadian Consumer Loan Association and president and majority shareholder of the Bellvue Finance Corporation, a licensee under the act.

Mr. CRESTOHL: Mr. Chairman, why do you not ask the witness to be seated like the other one?

The CHAIRMAN: I thought he would realize he could be seated. I thought he preferred to stand.

The WITNESS: No, I will sit down. On behalf of the Canadian Consumer Loan Association, and the membership and myself personally as its president, I wish to thank you for the opportunity of appearing before the committee to assist in all ways possible in presenting the facts and to respectfully offer our experience gained in actual operations in the small loans field.

Mr. McGregor has presented many helpful statistical tables and, while we do not wish to burden the committee with repetitious statistics, our own presentation has required the use of some factual and practical studies. They have been done by independent accounting authorities of considerable stature in their profession, and I will be happy to introduce them when the time comes for them to present the studies that they have done for us.

I hope my role may be to answer the questions that might only be answered by people who work at the operating level, day by day, and have a direct contact with many thousands of families using our service. I am sure you will be interested in our operating procedure, the methods, and the many things we have found out in our dealings with the public. Of course, the most desirable situation would be to have a cross-section of the people who have used and are using our service today appear before the committee, and tell the borrower's attitude towards us. If the thousands of written indications in our file would be any yardstick I am sure it would be proof-positive that we are providing a necessary service in an efficient manner and at a fair cost.

Now, the scope of the question under study is immense, and I hope you will understand my hesitation to attempt to answer—

Mr. THATCHER: Where are you reading from?

Mr. FLEMING: He has not got to it yet.

The CHAIRMAN: These are introductory remarks.

The WITNESS: Actually, Mr. Thatcher, I really wanted to explain the guard of honour I have with me on my right, here. I hope you will understand my hesitation in attempting to answer all questions on all the phases with which we are concerned, because that would be in some cases only opinion, and for that reason I would ask, Mr. Chairman, the indulgence of the committee to refer to the gentlemen on my right any questions of a technical nature that I feel they could do a much more adequate job with than I could.

On my immediate right is Mr. F. C. Oakes, vice-president of the Canadian Consumer Loan Association, and next to him is Donald F. McClure, first vice-president of the Household Finance Corporation (U.S.A.), from whom you have already heard. Mr. Oakes has a broad experience in the many specialized areas of our industry and I think possibly the committee might feel it revealing to draw on his special experience in the field of advertising. Mr. McClure, on the matter of financial structure, I am sure would do a much more adequate job than I would, and I think it would be a considerable time saver.

We are a comparatively young industry in Canada and as you may have seen by statistics already placed before you, we are playing an increasingly important part in the modern economic life of the country. Again, we welcome an examination of our business, because I feel that public examination can only lead to an understanding of an industry that is comparatively new and whose place in the centre of things has yet to have an understanding as far as the well-being of the Canadian people is concerned.

With your permission, Mr. Chairman, possibly to pass the ball occasionally to the people on my right, I will proceed to read our brief.

The CHAIRMAN: All right.

The WITNESS: The Canadian Consumer Loan Association is composed of small loans companies and licensed money lenders making loans to Canadian consumers under the Small Loans Act. Subject to the approval of its board

of directors as to an applicant's qualifications, all corporations, partnerships and individuals licensed under the Small Loans Act are eligible for membership. The forty-four members of the association conduct approximately ninety per cent of the business regulated by the Small Loans Act, which in 1954 was 831,721 loans made for a total of \$186,696,899.

Since then, the 1955 figures have been released. As Mr. McGregor pointed out in 1955 the figure for loans was 860,135 for a total of \$191,248,000.

Forty-one of these forty-four members are Canadian owned companies.

And once again, since the preparation of the brief, the total membership is now something over 50.

The objectives of the association, which was formed in 1944, are set out in its charter and are concerned with promoting high ethical standards of operation among members. The association recognizes that the success of those engaged in the small loans business is primarily dependent upon public confidence and goodwill, which can be acquired and maintained only through sound operating policies, efficient service and fair dealing.

Before submitting the suggestions which are based on 16 years' practical operating experience of association members under the Small Loans Act, it would be appropriate to review the nature and extent of the studies which led to the passage of the present legislation.

MR. FOLLWELL: Mr. Chairman, did you indicate that we were to take this, part by part?

The CHAIRMAN: Yes.

By Mr. Follwell:

Q. If you did, there is one question I want to ask on this first section. I think this would be of interest to all members of the committee. Mr. Cawker says in his brief that 41 of these 44 members are Canadian-owned companies. I think he indicated that you now have 50 members. How many association directors do you have on your association, Mr. Cawker?—A. Seven directors, Mr. Follwell.

Q. How many of these represent Canadian companies?—A. Five.

Q. You have five directors representing Canadian companies, out of seven?—A. That is right.

By Mr. Fleming:

Q. How many of the four small loans companies are members of your association?—A. Three of the four, sir.

Q. Which is the one that is not?—A. Canadian Acceptance Corporation.

By Mr. Fulton:

Q. What about your own company's record, Mr. Cawker? When was it formed?—A. In November of 1945.

Q. And your association with it dates from when?—A. From November 1945.

Q. And your own experience before that?—A. I was employed by Household Finance Corporation before the war, sir.

Q. And during the war?—A. During the war I was employed in the armed services.

Q. And you formed your own company, or you formed this company, almost immediately upon your discharge from the armed services?—A. Yes, sir; it was, you might say, my rehabilitation vehicle.

Q. How many of these engaged in the small loans business, how many companies engaged in the small loans business are outside your association?—A. If I recall the last figures Mr. MacGregor gave of 73 licensees, I think

our membership at the moment is 51—52 companies. We impose a six months waiting period after licensing, so that companies who have recently been licensed are becoming eligible for membership as the six month period elapses.

Q. Is the proportion of business done by the members of your association still approximately the same as the figure given in your brief?—A. No, it would be some figure larger than that.

Q. A little over 90 per cent now?—A. Yes.

By Mr. Henderson:

Q. How many years, Mr. Cawker, have you been in the loan business?—A. The total number of years? I was employed with Household Finance Corporation in 1935 to 1940, and immediately after the war. At the end of the war I commenced business with my own company.

Q. Did you start as a behind-the-counter man and work up to your present position? What experience have you had along that line?—A. Well, Household Finance Corporation has only one way of training men, and while they are a large American corporation, and I hesitate to say anything complimentary, I believe they have one of the finest training programs in the business.

I started on the outside as a purely outside representative, you might say, at the bottom of the ladder. And immediately before joining the services I was employed by them as a branch manager.

Q. Did you have any experience outside of this company in the loan business as well as in Canada?—A. Yes sir, in the United Kingdom.

Q. What experience did you have there?—A. Well, for the past two years with another associate in our company and myself—we organized for some English capital, first of all a hire-purchase company in London. We refer to that over here as a sales finance company. And in the last few months we are making personal loans over there under the Money Lenders Act of 1927, which has been referred to in testimony here.

By Mr. Fulton:

Q. When you say "we", you mean your company, or the company which you organized?—A. The economy organized in the United Kingdom. There is no connection between the Canadian company and the company in the United Kingdom.

By Mr. Henderson:

Q. Do you feel qualified to tell us about loan operations in the United Kingdom or have you anybody available in your organization who is qualified to tell us?—A. I think that I feel competent to talk about the loan business in the United Kingdom. We have gone through the process of becoming licensed, and before becoming engaged in the loan business in the United Kingdom we certainly—because of some of the restrictions which have been mentioned here—took a very careful look at it.

Mr. CRESTOHL: Can you tell us at this point the percentage of the business done in Canada by the 41 out of the 44 members of your association?

Mr. MONTEITH: He said it was 90 per cent.

The CHAIRMAN: That was for the 44 members, that 90 per cent.

The WITNESS: The total membership, as at the printing of this brief some two or three months ago, was then transacting 90 per cent of the total loan business transacted under the act in Canada.

Mr. CRESTOHL: Thank you very much.

By Mr. Cameron (Nanaimo):

Q. Can you tell us what proportion of that 90 per cent is transacted by the 41 of those member companies which you cited as being Canadian-owned?—

A. It might be—may I answer you in this way: let us say that of the total business transacted under the act in Canada, by the members of our association and by the non-members—the total transacted by the Canadian-owned companies would, I think, be from 15 to 16 per cent.

Q. Thank you.

By Mr. Knight:

Q. And if your answer were confined wholly to the members of the association, what would it be?—A. No, that would include some of the Canadian companies which are included in the non-members at this moment.

By Mr. Crestohl:

Q. I have been told that 85 per cent of the loan business in Canada is done by non-Canadian-owned companies.—A. That is right.

By Mr. Thatcher:

Q. Would Mr. Cawker be good enough to clarify the answer which he gave to Mr. Henderson a moment ago about the United Kingdom companies? Could he tell the committee from his personal experience how the British rates compare, first of all, with the present Canadian rates, and secondly, with the rates proposed under the bill?—A. Well, the rates—

The CHAIRMAN: Is that not covered anywhere else in your brief under another heading, or is this the appropriate heading?

The WITNESS: It is covered in the brief. The rates stipulated by the Money Lenders Act of 1927 name a figure, as Mr. MacGregor has pointed out, of 4 per cent per month as the point at which the rate could be considered unconscionable.

Now, I believe that Mr. MacGregor said that at that point the onus was on the lender; that the onus was on the lender to prove that the rate was not unconscionable. But I can hardly agree with that, because there is no government agency of any kind which will question a rate. Be it 70 per cent per annum, the onus is on the borrower to take the matter into court, and the onus is probably then pretty evenly divided.

The borrower states his case, that he believes the rate is unconscionable, and then the lender has an opportunity to prove that the rate is conscionable.

By Mr. Thatcher:

Q. Could you state from your personal experience how the British rates in practice compare with Canadian rates at the moment?—A. The British rates in practice today run from 60 to 70 per cent per annum.

Q. So they are very considerably higher than our present Canadian rates?—A. Roughly I would say that they are working out very closely to three times as large; in other words, if they were three times the maximum rate under the act, now of 2 per cent, that would be 6 per cent per month, or 72 per cent per annum, and that a 70 per cent rate for the United Kingdom today is the rule rather than the exception.

Q. Would you not say that those rates are made possible—that those very excessive rates are made possible because the small loans businesses in Britain are not permitted to advertise?—A. Mr. Thatcher, I think that is the only answer to the hardships that are being imposed on the people there.

If I might enlarge on that for a moment, at the time the people in London asked us to investigate the small loans business in London, and the possibility

of setting up operations, I did a considerable amount of research myself. I asked the solicitor for the hire-purchase company to give me his views; and I also asked one of the oldest money-lending firms in London if they would be good enough also to express their views also on paper, because we felt that the one road-block to doing business at a fair rate in London was the inability to advertize.

I have some photostat copies of these letters and I would be glad to read them if it would be of help to the committee; they are not too long. One is from the solicitor and another is from a money-lender in the middle of London.

The CHAIRMAN: I think we would be interested. Would the committee care to hear them?

Agreed.

The WITNESS: The first is from Sir Charles Russell of Charles Russell and Company, 37 Norfolk street, London:

Dear Mr. Cawker:

I am writing in response to your request to give you my own views on the effect of the restrictions on advertising imposed in this country on the money-lenders.

Historically, as you know, the business of money-lending acquired a very bad reputation in this country because of the harsh bargains driven by money-lenders in the 18th and 19th centuries, and because these gentlemen got into their clutches people unused to business, such as widows and young men, and then proceeded to relieve them in many cases of practically all the money that they had in the world. As a result parliament imposed very severe restrictions on the practice of money-lending, one being an absolute prohibition against advertising, except in a very restricted form, and touting for business. It may well be that this has in many cases had the reverse effect to that for which it was designed, because the public have got no method of comparing the terms offered by one firm against those of its competitors, and as a result no doubt in many cases people borrowing money in fact get into the hands of money-lenders of the worst type. Although the law has to some extent put a stop to the most blatant cases of extortionate interest, there is still, in my opinion, ample scope for those who are minded so to do to impose on the public.

This second letter is from, to my knowledge, one of the oldest money-lending firms in London, John Wallingford Limited, by its president, John G. Purvis:

Dear Mr. Cawker:

You asked me to put on paper some of my ideas pertaining to the personal loan business in the U.K. I can only repeat the opinion stated to you during our conversations.

Whilst we have an act providing for 48 per cent per annum, other restrictive elements in the act produce the result of keeping the personal loan business in the lowest possible category of public acceptance.

The basic reason, of course, is the restriction on advertising contained in the Money-Lenders Act.

Prohibition of statement of policy, referring of new customers by old customers, direct mail advertising, has the result of keeping the public in ignorance as to where they may get the accommodation they need and the rate they will pay.

The result is the chaotic status of the business today. Usury and loan shark practices are prevalent in all our cities because people are simply drawn in their need to the most convenient supplier of money and, historically, enter into the transaction and consider the conclusions, namely the interest, later.

We could, as you can see, attract capital which we could put out at a lower rate than that permitted by the act, if we were able to operate a volume business by stating openly and adequately publicising our policy and rate.

Such a situation, you may be assured, would dry up almost completely the sources of hardship and misery which so many needy borrowers cannot avoid today. In short the business needs the opportunity to get into the open and publicly display its wares. Under such circumstances I am sure healthy competition would take care of the rest.

By Mr. Thatcher:

Q. I have one more question, Mr. Cawker, on this subject. I was rather surprised that the rates would be so high in Great Britain. Do you know, under the several parliaments of the Labour party, that no committee was set up at any time to study this question, or that there was no legislation contemplated during that period of time?—A. I know of no study since the passage of the act in 1927.

Mr. FLEMING: What was the date of the first letter?

By Mr. Crestohl:

Q. What is the name of the solicitor who gave the first opinion?—A. It is dated February 16, 1956, and the name of the solicitor is Sir Charles Russell of the firm of Charles Russell and Company.

By Mr. Knight:

Q. In both your letters the interest rate is stated in terms of per cent per annum. Is that customary in the British Isles?—A. I think it is, because the act itself recites it as 48 per cent per annum.

Q. I also notice, in the second letter, that the writer stated one of the disadvantages of operating a loan business in the old country is that they did not state openly and adequately the actual rate charged.—A. Did he say the rate charged?

Q. I took the words down, "by stating openly and adequately publicising". —A. Yes, I think that is fair.

By Mr. Henderson:

Q. If one of us was in London and wanted to make a personal loan, how could we be directed to where we should go and as to what scale of integrity we would be subjected; and how would we know that we went to the right office to obtain a personal loan and how much security they would require?—A. Well, the security situation is quite a revelation to us who have tried to practice a fair rate and to operate a fair personal security business in this country. They have no chattel mortgages as such in England; it is done by bill of sale and, of course, a money-lender over there can take securities, and he can take charges against a future inheritance. There is absolutely no restriction as to the kind of security. They can take property and anything else—and bear in mind that they take it all!

Q. When you mention "bill of sale", does it mean that when I make an application for a loan I make a bill of sale covering all my worldly goods—A.

As a document it is sort of half-way between a chattel mortgage and a conditional sale contract. As a layman that is the way it struck me. They cannot register the bill of sale the same as you can here. You simply do not act on it conditionally upon the borrower paying the loan.

By Mr. Quelch:

Q. Are not a lot of the small loans made by pawnbrokers in the United Kingdom? Or am I about thirty years out of date?—A. The pawnbrokers are quite active.

To answer the first part of Mr. Henderson's question, I would not know how you would tell a needy borrower how to find a reputable lender. They cannot put anything in the paper except their names, places of business, telephone numbers, and, I believe, they may also mention how long they have been in business. Because of the reputation which the business has over there, the landlords' councils in the city of London—I think it is a foregone conclusion—would refuse a money-lender the right to hang a sign outside his building. When I went to visit this fellow I think that I possibly got such a plain statement of the situation because he was interested in selling out his business as he was getting on in years. His office was on Shaftsbury avenue; it was very difficult to find, quite a "cloak and dagger" situation—up the back stairs, third floor, and then finally to a room number. They open the top half of the door, ask you who you are, close it again, and relay that information. It is just a delicate situation. They are ashamed of the business because they have not been able to get it out into the open. It is very poor!

We are approaching it over there from the standpoint of using the one statement of rate that the people understand. They need the service over there. There is just as great a need for it over there as there is here. For that reason people are being victimized every day. We are approaching it from the standpoint of personal loans at hire-purchase rates. In other words, as you might say here, personal loans at sales finance rates. That is the rate they understand. So many have been victimized that if you said "a rate on a percentage per month" or "percentage per annum" they would probably take it with a grain of salt. We have felt that by mentioning hire-purchase rates we will get some response from the public, because that is the term of rate they will understand.

By Mr. Fulton:

Q. Do you happen to know what percentage of the money-lending in the United Kingdom is done by the people of the type you described?—A. I have the slightest idea, Mr. Fulton, because there is no central agency. As I say, they operate in back alleys and corners of government buildings. That is a fact!

By Mr. Knight:

Q. Have you any idea of the percentage of losses over there as compared with here?—A. No.

Q. You have no statistics?—A. This fellow Purvis told me that the losses were quite high.

By Mr. Quelch:

Q. Have you any record of foreclosures in Britain?—A. In our own experience so far, no. We have had no foreclosures, I am thankful to say.

Q. But you decided to go over there into this paradise, as it were?—A. No. We first entered the field of sales finance business over there at the request of some English capital. Those people became aware of the type of operation

we have over here, and possibly, on occasion, I am inclined to brag about it a little bit, because I am not ashamed of it. We have a Canadian chap over there who is running the office, we feel at a fair rate, which is the same rate as we are operating at in Canada, under the act of 1939. We feel that, and, so far all the indications have been that it will receive good public response.

By Mr. Fleming:

Q. Mr. Cawker, may I ask you: do you think the situation in England would be greatly improved by the introduction there of legislation of the same nature as our Small Loans Act?—A. I do not think there is any doubt about it, sir. It is badly needed, badly needed.

Q. Is it the view of all your members that this act has brought great benefit to the Canadian public?—A. Yes, sir.

By Mr. Thatcher:

Q. Certainly the Canadian public, would you say, has had better treatment under the present legislation than the consumer in Britain—the borrower there?—A. I do not think there is any question of that, Mr. Thatcher.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, in your investigations in Britain, did you come across any trace of the operations of the co-operative loan associations that, I believe, are operated by the co-operative wholesale bank?

Mr. FULTON: Operated by whom?

By Mr. Cameron (Nanaimo):

Q. By co-operative wholesale bank.—A. Yes, I think they call them building societies over there.

Q. I do not think it is confined to building.—A. They are doing quite a service over there. I have had some exposure to them when I was in England operating as a money lender, or as a sales finance company. There is one thing I do like about the situation over there, and that is there is no restriction whatsoever on how you obtain the capital which you use. In other words, our sales finance company over there can take deposits at whatever predetermined interest we would care to pay. Now, the building societies and the co-operatives that you speak of over there have done a rather outstanding job, I think, in bringing money into their funds so that they could lend the money to individuals. The impression that I got was that they were confining their loans more to building loans and property loans, sort of on a parallel with the building societies. But, I certainly did not have any intimate glance at their records. That was the impression I got when they told me the procedure they followed in soliciting deposits.

By Mr. Enfield:

Q. Do you have any idea of the volume of small loans business done in England?—A. No, sir, because there is no association of money-lenders over there. There is no central licensing authority. You get a licence in the magistrate's court jurisdiction in which you wish to operate. If you open a branch on this corner, and you wish also to open a branch a block up the street, there is nothing to prevent your doing that. You would simply apply for another licence to the court of that local jurisdiction.

Q. Is it not rather difficult for you to exercise your judgment on the need for this service unless you know the demand for the type of loan that you are

giving over there?—A. I can only speak from my own experience there. I would say that the demand, in our experience, far exceeds our ability to get funds to provide the service.

Q. That is the experience of this company?—A. Yes. I did not only talk to just one money-lender; I talked to several. They have more business knocking at the door than they can handle. But, there are so many cases of big loans. It is not well enough known that they are serving, as I see it the general public; and I think it is just as well, as a matter of fact, in view of the rates they are charging. But, we feel that from our own experience there is a very definite need.

By Mr. Knight:

Q. I would like to ask Mr. Cawker, is it not a fact that in the old countries, and I am thinking of Britain, that there are less people who borrow money? I mean, there has been a tendency—it has never been a country where credit has been very free? That is the first thing. Secondly: these rag-tailed sort of—what do they call that thing, that expression about this horrible condition in which this money-lending business is—is actually the fact, that Mr. Cameron brought up, that anyone that is in, shall we say, a standing of any kind, even the fact that he has a job in the community, sends him to these co-operative institutes which are doing a tremendous service over there? Thirdly, the high risk and the history of the loans, which go along with the condition which I have described, are the main causes for the high rate of interest that they have to charge in the slums—because that is what they are, that is where the business is done, the business you have just been describing?—A. I have not any figures on the co-operative balances, the outstanding balances. I would guess that the situation is possibly the same as it is in Canada with credit union fulfilling the function here. There is some similarity, I think you would agree. I certainly would not speak for the credit unions, but I think it is a matter where they could fill the need. I can assure you, Mr. Knight, we do not operate in a slum area over there. Our average loan is very, very close to the average loan in our own business in Canada.

By Mr. Thatcher:

Q. When you said they had a 60 or 70 per cent rate of interest in Britain, do you know whether that applies to the "Co-ops" also? Have you any idea?—A. I do not know the answer to that question and I did not dare ask it.

By Mr. Crestohl:

Q. Do you know whether the loans made in Britain by these building co-operatives are available to the public or whether they are restricted to members of those organizations?—A. The impression I had was that they were available to members only, but I would hesitate to go on record as being definite on that.

By Mr. Knight:

Q. There is a point about which I want to ask in regard to Mr. Thatcher's question. Supposing their rate of interest is 40 or 50 or 60 per cent, it makes very little difference because the profit—if you may call it profit—I do not—the dividend, or whatever it is—goes back to the original people who are paying the money temporarily into the institution in order that they and others may get the accommodation they do. In that case it is not a fair comparison.

The CHAIRMAN: You are referring to patronage dividends?

Mr. KNIGHT: Yes.

The CHAIRMAN: There is one question which you asked, Mr. Knight, and I do not think it was answered. You asked whether it was not true that the public in Britain were not inclined to borrow as much as the public here.

Mr. KNIGHT: Historically they are not likely to borrow money to the same extent as we are in a growing and pioneer country.

Mr. THATCHER: I do not think you would borrow as much if you were paying 60 or 70 per cent interest!

The CHAIRMAN: Let us see if the witness can answer it.

The WITNESS: I think the same trend is evident in the United Kingdom—a very similar situation to what we have seen here. I was amazed to find the volume of sales finance business being done in the United Kingdom—literally amazed! In other words, some of the traditional reticence about “buying on time”, or borrowing, is very rapidly disappearing and I think in a great many cases people would be quite happy to borrow and make their purchases in the same way as occasionally happens here, though that is not the primary purpose of our business. I think that, as public education and fair competition can be developed, we will find that possibly the need can be filled at fair rates, because there is quite obviously a need there that is not being served at the present time.

By Mr. Thatcher:

Q. Could you say whether acceptance company rates are similarly high? Might not competition bring the rates down to more reasonable levels?—

A. They are just about on a par with those of the Canadian companies; as a matter of fact, before the recent increase in the bank rate over there, on new cars they were fractionally below the Canadian rates.

Q. How would you account for that? Are they permitted to advertise?

—A. Oh yes, their sales finance business is done in exactly the same way as we do it here. It is done through a dealer organization, and if company “A” gives a good service to dealer “A” there is nothing to prevent dealer “A” telling his friends that it is a good company which gives good service, and so business goes up.

By Mr. Michener:

Q. You have not mentioned the banks. Could you give us any information about the amount of small loans they make, and the rate of interest charged on them in Britain?—A. They make practically no small loans, Mr. Michener. They did, up until the second last treasury order, accommodate people who already had bank accounts; they do much more on a temporary overdraft basis than we do here. That is a service to the consumer, but it is to a consumer who is a property owner, and who has a bank account, and has had it for some years. At the present moment he would pay, depending on his status and record, 6 or 6½ per cent.

By Mr. Henderson:

Q. In the course of your evidence, Mr. Cawker, you made two statements which I want to try to reconcile. One was—in reply to Mr. Crestohl—that 85 per cent of the loan business in Canada was done by non-Canadian companies. You made another statement in reference to British loan companies, that there was no limit as to where and how they could obtain their capital. I presume you mean that the British companies can obtain capital by common shares and in any other way. Is that what you meant?—A. Yes, sir. Can I put it this way? From the standpoint of the Canadian companies in the field today in Canada, I think the one great reason that they have not gone out and obtained a bigger share of the business up to this time is the limitation placed on them

as to how they may raise money. They are limited, as Mr. MacGregor has pointed out, and we, as Canadian companies, especially the smaller companies—the more recently licensed companies—have had it pointed to us since the war—we never really took it as advice, I need hardly say; it was a condition of the licence—that not only were we limited to common shares, but to common shares of a certain par value, so that the smaller operator is faced with one of two alternatives—to borrow money at the bank or to sell out his equity. I have been faced with that problem several times in the last 11 years; sometimes I have had to go out and borrow money at a rather high rate of interest because I am not quite prepared to dilute all my equities. I am hardly able to reconcile, in my own mind at least, where the protection of the investor comes into this. We have a security commission which does a most adequate job in determining whether the investor is or is not being properly protected. Our own insurance companies are permitted to extend loans to this type of company, but it seems that one big condition is that you must have an American parent, and secondly that you must be big, and the Canadian companies feel very deeply about this situation, I can assure you, because we do not apologize for the fact that we have such a small share of the business. We are making some headway and taking a little business away from the American companies. They actually provide a rather good training field, and I am glad to see and probably personally have been responsible for seeing that young employees of companies who actually are American-owned members of the association, if they have got a little bit of spark of free enterprise in them, I encourage them to get out and go into business themselves, having in mind they have a little difficulty in raising their funds under the regulations on the type of security on which we can borrow and where we can borrow.

By Mr. Thatcher:

Q. I wonder if this would be a good point for you to tell the committee, whether you think the new rates proposed would mean that a number of companies would be forced out of business or whether most of them would continue to operate?

The CHAIRMAN: I think that is covered in another part of the brief.

By Mr. Henderson:

Q. Just before we get to that, I would like to ask Mr. Cawker a couple more questions on how these companies get their money—and I might say that I was looking at the July 14th issue of the *Financial Post* where I saw an announcement, for record purposes only, that Beneficial Finance Company offered a \$35 million promissory note due July 1, 1976, and a \$10 million Canadian promissory note due June 1, 1976, over the name of Eastman Dillon and Company. I take it this is the way Beneficial get their money in the United States, by a form of promissory note on which the home company gives out a return on capital, or it could be by bond, debenture or any other manner of exchange of that nature, and yet as I understand the legislation we have, if that same company or their company in Canada, or another Canadian company wished to get capital, they could not get capital that way. Is that correct, Mr. Cawker? —A. Well, without a complete examination of the type of security I would not be too sure. The Canadian company has no restriction on borrowing, and giving as security the company's promissory note; but we cannot issue debentures or preferred shares—at least that is what we have been told—so that we do not have the advantage of that long term money at a very desirable rate which is advantageous to us throughout the period of high rates—high banking rates and high interest rates generally. This advertisement you speak of, I think, is a good case in point. We have a restriction in effect that limits an

advance by the banks to finance companies, and I have no quarrel with that. And I have not any quarrel with the companies in our business, nor with the government agency that is armed with the statistics and know-how to determine whether that should be. But I do feel it very deeply for myself and the Canadian companies that we cannot do what Beneficial have done. We cannot go out into the public market and sell a debenture or sell a preferred stock. I am not prepared to say that, whether the company be large or small, the Canadian investor would be prepared to turn us down cold, and I further do not think he would lose any money.

Q. Well, if you could do that in Canada, if this long term capital were invested in, say, bonds or debentures of Canadian companies, do you feel that the Canadian companies getting their capital in that way would be able to increase their percentage of loan business above 15 per cent which they now have?—A. Would it be fair for me to give you the example of my own case? I have a sales finance company operating side by side with the personal loan company. It was formed three years after the—

By Mr. Monteith:

Q. May I ask, Mr. Chairman, what Mr. Cawker means by "side by side"?—A. They are separate corporate bodies and they operate from the same premises, and we have 11 branches at the moment and they operate side by side in the same premises. That company was formed three years after the licensed small loans company, Bellvue Finance Corporation. It has no restriction on how it raises capital, and indeed it is a little better than $2\frac{1}{2}$ times the size of the loan company.

Q. When you talk about "sales finance company". What would that be—an acceptance company?—A. That is right.

By Mr. Henderson:

Q. Mr. Cawker, one more question. If you were able to go out and raise your capital in a similar manner to that which they can in Britain or in the United States, by their bonds and debentures for the sales company, would you be able to get your money cheaper?—A. There is no question of that.

Q. That you would?—A. We would get it cheaper. The most important thing is we would get more of it.

By Mr. Fleming:

Q. Would the borrower get any advantage from that fact?—A. Yes, I think he would, Mr. Fleming, because this association—I am coming to it later in my brief—has recommended a reduction in rate which is not as radical as that contained in Bill 51, and I feel—and mind you, that has been after a considerable amount of study, and I think almost all the Canadian companies would be able to survive at that rate. They would be able to survive much more easily and get a bigger share of the business if they had freedom in obtaining their funds, so that I think, in the long run, there would be a benefit to the borrower.

Q. I take it then, it is your opinion that this restriction on borrowing on debentures, and some other forms, is retarding the Canadian companies in their attempts to enlarge their organizations in the field in competition with American companies?—A. I think we can take it out of the category of opinion, Mr. Fleming. It is a fact, and I have verified it, and heard about it from every Canadian member of the association.

Q. Mr. Cawker, you say if you had freedom to raise your funds you could probably hire money for lending cheaper by being able to go into the public market?—A. That is right.

Q. I have two other questions. In regard to your British operation, some of the members on this side of the table would like to know how that is operated. I think it has been mentioned several times that it is 4 per cent or better, and I think you indicated that you operated in London a small loans business and a sales finance business. Could you tell the committee what rates your company is charging in England?—A. Yes, in the personal loan company we are charging 2 per cent per month; and in the sales finance business on new cars, 8½ per cent per annum which is a gross of 17; on used cars 9 per cent per annum; and on appliances 10½ or 10 per cent—I believe it is 10—which would be a gross of 21 per cent.

Q. Is that a comparable rate with your sales finance business in Canada?—A. Yes

Q. So you actually are operating in the British market at about the same rate, or approximately the same rate, as you are in Canada?—A. That is right.

Q. In Britain is there a limitation by legislation on the amount of money that you would loan to individual borrowers? For instance, we have a \$500 limitation on small loans.—A. No, there is no limitation.

Q. Is it usual and customary for lenders to loan to an individual borrower frequently more than the equivalent of \$500 in Canadian funds?—A. Well, we are not, but I think it is the practice. It is very difficult, actually, in speaking of money lenders over there. They are awfully secretive with the exception of this one fellow who, as I say, wanted to sell his business, and we talked to a point where he did give us his views. I never did have a look at his records. He said that, if we were interested in buying his business, they would be available, but I think the impression I got from the conversations I had was that the average loan ran from—well, they would not make one at less than 30 pounds which would be about \$75, on up to possibly \$400 or \$500.

Now of course there is, in addition, over there a racket which I never did get to the bottom of, concerning loans against inheritances, and that I understand is a terrifically high rate operation, but I know very little about it.

By Mr. Cameron (Nanaimo):

Q. You were telling us that, in your case, the prohibition against raising funds in certain ways in Canada was hampering the growth of Canadian companies?—A. Yes.

Q. What would you consider to be a reasonable rate of growth?

The CHAIRMAN: That is the \$64 question!

By Mr. Cameron (Nanaimo):

Q. Would you suggest that the companies with which you are connected and of which you are the major shareholder—would you consider that that is a bad prohibition in prohibiting their raising funds, and that it had a cramping effect on the expansion of those companies?—A. Yes, I think it has!

Q. Then perhaps you would be able to answer the other question now, because I noticed in the table which Mr. MacGregor provided to us, that in 1952 you and your associates had an average paid up capital plus surplus paid into general reserves and the balance to profit and loss account of \$60,774; while in 1955, only three years later, that sum had reached a total of \$111,494. I presume that during that period you were also in receipt of a salary or director's fees? Does that seem to indicate a very cramping position and that you have not been able to expand?—A. Compared to the share of the business going to the American-owned companies I am not at all proud, and I think it should be a great deal more.

Q. I must point out that you have done just about as well as the American companies, the four ones that are listed here. Your rate of expansion is the

same only that you started a little further down; but your rate is just about the same.—A. You will recognize, when it is presented by Haskings and Sells through their Mr. King, in the borrowing ratios—in other words, the use of capital leverage—I think, that I have been rather fortunate in the way I have been able to borrow money, and I think it will also show that only in one or two cases are there any other Canadian companies with a higher borrowing ratio than that of my own company.

Q. I hate to disillusion you, but there are some which have done much better. For instance, there is the Trans Canada Credit Corporation, which had a total of assets in 1952 of \$264,000 odd, and only three years later it had \$1,015,500; so you should not congratulate yourself too readily until you investigate some of your competitors.—A. I believe I qualified myself by saying that except for one or two—but I think it would be much preferable if we left it for the accounting people to deal with. I am not trying to hide my profits, and I think what I have said will be substantiated generally.

By Mr. Thatcher:

Q. The words “net profit” do not mean anything unless they are related to the capital invested. I think we should have this specific company as a witness if Mr. Cameron is going to question them.

The CHAIRMAN: We will be coming to that later. In the meantime there is one other point in which I am interested. Have you any knowledge of how the Canadian permissible rates compare with those in the other commonwealth countries? The thing I am interested in is the category in which the rates would fall in the other Commonwealth countries, such as South Africa, Australia, New Zealand, and so on.

By Mr. Quelch:

Q. And the details?—A. I cannot recite them, but I do know that they are all higher. I will make a note of it and get the information for you, if you would care to have it.

The CHAIRMAN: Yes, I think it would be interesting to the committee, but it is not vital.

By Mr. Henderson:

Q. In your evidence about the obtaining of funds or capital for the Canadian loan companies, are you able to obtain funds through promissory notes just endorsed by somebody else? Is that permitted to you under the act, as you understand it now?—A. Yes, I think it is, Mr. Henderson. But one of the things which we smaller Canadian companies face, of course, is the personal guarantee. I know what the situation is in my own company and I think it is pretty general that before we get into the category of loans such as Niagara Finance, Trans Canada, Citizens, most of the other small companies find themselves faced with the necessity of their directors, or their president, or their operating executive, guaranteeing the loans, whether they be from banks or from individuals; so I take it from that that we can borrow money on promissory notes endorsed by some official of the company.

Q. Has your association or representatives of your company ever made any request that the method by which you obtain your capital for the Canadian company should be changed, to your knowledge?—A. I am afraid we took the attitude of sort of “leave well enough alone”; but when I obtained my licence in 1945 the solicitors were advised by the department to change the charter because the charter included common shares at some other figure than the \$100 par value, and they also included in the draft preference shares, and

that was ruled out; so I think that through the years we have sort of taken it for granted, but never tested it; we were not anxious to take issue with the department on it; and I do not think—certainly not this association—I do not believe it has taken any action to ask the department to waive that in the case of Canadian companies.

Q. Wouldn't it be doing a service to the borrower, because it would reduce your rates?—A. Yes, it certainly would.

Q. As a result of obtaining your capital?—A. Yes, because we measure any success in this business, I suppose, by the volume of business we can do, and with our limited means of raising money, the capital leverage therefore affects the interest on borrowed money, with wildest fluctuations—that has a very important effect on what happens to profits; so that if we were unable to, let us say, arrange a long term debenture a year ago when we might have got it at 4 or 4½ per cent, it would be very convenient at this present time when interest rates are somewhat higher. I think that would eventually be reflected with some advantage to the borrower, because, although Mr. MacGregor pointed out it would seem that 40 per cent of the business was not a very important result of competition, I think it is quite an important result. In other words, 40 per cent of the business is being done at a rate less than the present maximum rate up to \$500. We have been proceeding on the premise that the 2 per cent per month permissible rate up to \$500, was the effective charge all through the piece; but the fact remains, when we do examine it, that 40 per cent of the business is being done at something less than that. I think that is reasonable evidence of competition in the business. I think that Canadian companies would like to get on the band wagon much more than they are now, in exercising competition ratewise, if we could get the money at reasonable rates.

Q. What you are really saying is that before we can consider Bill 51 we should consider section 16 of the Small Loans Act?—A. Yes.

Q. Sections 16 of the Small Loans Act says:

“The company shall not issue any bonds, debentures or other securities for money borrowed, nor shall it accept deposits.”

A. I believe it was mentioned by Mr. Varcoe this afternoon that that legally applied only to the four small loans companies, but it is in fact the practice, as Mr. MacGregor pointed out, to limit the companies provincially chartered and licensed under the act to the same type of financing. So, therefore, it is mainly the small Canadian companies which are suffering. The companies which are named in the act all have available to them capital from a parent. That parent can raise money if it chooses.

By Mr. Enfield:

Q. How was this done? Was it done through a directive from the department, or through a written regulation or condition attached to your licence?—

A. I really think that Mr. MacGregor might possibly answer this question better than I could. The fact remains that we all would like the privilege of raising money as we see fit, and none of us are doing it, and we need it very badly. So it leaves the conclusion up in the air. I am sorry!

By Mr. Fleming:

Q. Is it not likely that everyone in the business would raise the money that he needs for his business by the cheapest possible method?—A. That is very sure.

Q. Your present view is that you could raise your needed funds more cheaply by borrowing on debenture than you are doing at the present time?—A. That is right sir.

Q. If you were given the privilege of raising the funds in that way you would, if that were the cheaper way of doing it, and would forego that method if you could find a cheaper method still?—A. Yes.

Q. This question yet remains—you indicated your view on it earlier: Are the licensed companies in that event going to share with the borrowers some of the benefits of the cheaper rates at which they are then able to borrow money themselves?—A. Well, here I could only express an opinion. I think that the 40 per cent, or something over 40 per cent, who are operating at the maximum—I was going to say at the going rate, but I do not think it is a good term...

Q. Call it statutory maximum.—A. ...who are operating at less than the statutory maximum up to \$500, is an indication that certainly savings to the lender will eventually be passed along to the borrower because of the competitive result.

By Mr. Follwell:

Q. What you are saying is that competition in the industry would pretty well compel everyone to look for people to whom to pass along the saving.—A. That is reasonable.

The CHAIRMAN: Are there any further questions on this section?

By Mr. Fulton:

Q. Is Merchants Finance a member of your association?—A. Yes, they are.

Q. I shall have questions about that later.

By Mr. Fleming:

Q. Have you any experience in the United States, or any competence to answer questions about the business in the United States? I mean yourself; no doubt there will be others later.—A. Well, I have had a reasonable exposure to it, Mr. Fleming; but I certainly have people with me here who, I think, would qualify in the expert category, and I would, in the interest of saving time, much rather that they answer the question. I would be very happy to have Mr. McClure answer any question which you would like to direct to him.

Q. Perhaps he will be back later.—A. He does not take a formal part in the presentation of the brief. He is here to assist me on any questions which he is much better qualified than I to answer.

Mr. FLEMING: May I put to Mr. McClure the question which I have come back to you with twice, Mr. Cawker.

Mr. McClure, has it been, in the experience of the United States, a factor in reducing the cost of operation that the small loans companies there are in a position to borrow money by the issuance of debentures? In other words, that they have more freedom than is permitted to them in Canada in the raising of money for their business purposes?

Mr. DONALD F. MCCLURE (*First vice-president, Household Finance Corporation (U.S.A.)*): Well, there is no question about the fact that the source of the money which is employed in the business is an important factor. It, of course, is not the only factor which leads to a reduction in the rate charged to borrowers. It occurred to me, while another question was being asked on the same point, that this question of the susceptibility of this particular business to the competitive force leading to a reduction in the rate of charge depends upon so many factors; one of the most important is that there be freedom of advertising; the other is that the lenders all say the same thing, so that the point of competition of rate is clearly understood by the borrower and not disguised. The other is that money is available in enough quantity,

and at a price. The other is that your operating costs are not in the meantime going up so as to nullify or offset savings which you might otherwise get by a reduction of interest rates, or a lack of freedom of advertising. Let me give you an illustration: in 1928 in the United States the going rate in the small loans business was pretty largely $3\frac{1}{2}$ per cent a month. The rate was pretty much expressed as simple interest. There was freedom in advertising. There was only a limited amount of money available to lenders, because the business was not particularly well known. One of the companies felt that if they could get enough additional money to reduce the rate of charge to customers, and advertise it, they would attract to themselves enough additional business so that at the reduced rate they would make the same or more dollars of profit, but at the reduced rate to the borrower.

Mr. FLEMING: A bigger turnover?

Mr. McCCLURE: A larger volume of business on the books. In October, that particular company did reduce the rate from $3\frac{1}{2}$ to $2\frac{1}{2}$ per cent in connection with a flotation of a piece of financing which brought, by that time, a relatively large amount of additional money to the company. Within a matter of six months time that company had the additional money lent out at the reduced rate. Within two years time they were making more net profit at almost a third the cost to the borrower, because of the larger volume of business on the books, than there was before at the higher rate. So that there is a possibility for a very marked reduction in rate to the borrower, if all the conditions are right. But, they have to all be there. Perhaps I have not mentioned all of them, but certainly reduced rate on the capital is one, freedom to advertise and to be sure that the advertising can be clearly stated is another, and the fact that perhaps the rest of the industry does not move with as much speed. That could be repeated. There are other companies that have done the same thing.

That is not unique with that particular company. I simply used that as an illustration to show that it can be done if the conditions are right. I think that Mr. Cawker's statement that the companies that are domiciled in Canada, and have to rely upon raising their money in Canada, and have been forced to get their money at a very high cost, is true. It has put the Canadian competitor of the American companies at a disadvantage, on his own home ground. It has made the cost of the raw material which goes into this business more expensive to him. Incidentally, it has been a factor which the American-owned companies have had to take into consideration when they themselves may want to consider a rate reduction. What advantage of a rate reduction, to be sure, to the customer, if all you do is to find that your Canadian associates are helpless to meet the rate?

By Mr. Fleming:

Q. Mr. Cawker, how strongly is your association pressing for such an amendment of section 16 of the act as to permit licensees greater freedom in obtaining funds they need for the business as, for instance, raising money by debenture issues? How strongly are you pressing?—A. I think it would be fair to say, Mr. Fleming, that after some of the evidence we have heard, and some assessment of Mr. Varcoe's evidence this afternoon, the Canadian companies will now press very, very hard for the removal of what we have felt was a condition of licence.

Q. Which you think is discriminating against the Canadian companies?—A. Oh, I am sure it is discriminating against the Canadian companies. I think Mr. McClure, representing the largest American competitor, has admitted that.

By Mr. Thatcher:

Q. Mr. Chairman, I would like to ask Mr. Cawker a final question. So far as he is concerned, he says in the third paragraph of his brief, the objectives of the association are concerned with the promoting of high ethical standards of operation among its members. I am wondering if there is anything in your constitution or by-laws which would permit you, if you found that a member had been acting in an unethical way, to take any disciplinary action? Would you consider eliminating that company from your association?—A. At the moment we are in the process of amending our by-laws, because up to this point the association has had some element of control only over the operation of business coming under regulation of the Department of Insurance. The original constitution was built around the regulated area. We have not had any indication from the Department of Insurance of any complaints of violations in the area under \$500.

Q. I am just wondering about the company, Mr. Cawker, that Mr. Fulton just mentioned, the Merchants Finance. Now, if they are really charging this 85 per cent rate that was reported, perhaps your association would consider taking some kind of action?—A. Mr. Thatcher, we certainly would not do that without all the facts. I can assure you that this association feels very, very keenly about any member, whether it be in the field under \$500 or not, who charges usurious rates.

I have asked the department from time to time when we have had complaints, if they would supply details of any complaints. I have had none by name, or any way of identifying them until this matter was brought to a head some few months ago by Mr. Don Brown, and we have investigated that situation very thoroughly. It involved a loan outside the act—outside our powers to discipline. We are taking the necessary steps within our association to have the power to discipline any member who we feel is guilty of—

Q. Giving the whole thing a "black eye"?—A. A black eye. Mention has been made of Merchants Finance. I do not know whether it is your wish that I should pursue that any further. The Chairman mentioned he had a letter from them this afternoon and that possibly they will be asked to appear. I have been in touch with them, I can assure you, and the facts are rather disturbing to me.

By Mr. Knight:

Q. What are the disciplinary powers you have, Mr. Cawker, within the area that is regulated? You have mentioned that you have in your constitution some disciplinary powers with regard to that area, and I was wondering what . . . —A. Our present constitution gives us the power to expel a member for a violation which occurs within the area regulated by the act. We now want to have the power to discipline that member in the same way in any area as long as he is a licensed money-lender and a member of our association. We have spent too many hours in trying to gain public acceptance for this business, too many hours and too much money has been spent by the large companies—and I give them credit for it—trying to help the public rather than fleece them—to let this sort of situation occur within our membership in any area of its lending activities.

Q. And would you consider disciplining them with regard to anything except usurious rates? You have mentioned in general terms, the ethical standards of the lender. What might cause a member to come under discipline besides charging usurious rates?—A. Undignified, misleading advertising—Ethics is a pretty broad area to examine.

Q. You mentioned it; I did not. You mentioned it in your brief, so I would like to get some definition of your idea on that.

The CHAIRMAN: That is practically a standard clause in any constitution, is it not?

The WITNESS: I think it amounts to decent business practices. That, once again, is probably a broad general statement but I think that sums it up.

By Mr. Knight:

Q. Do you have any regulations or rules in your association regarding the methods used by your members in collecting the payments?—A. Well, we are certainly most interested that the methods of collection and collection procedure are fair and reasonable to the borrower. There have been cases where young inexperienced people going through a period of training have done things of which we do not approve, and have made mistakes. I cannot remember in the last seven or eight years a case where an experienced operator has been guilty of unfair tactics in effecting collection from a borrower. Let me put it this way: If we were not sure that a company which had a young experienced man on collection who committed some breach of what we consider fair and decent business practice did not take some strong disciplinary action we would feel that it certainly came within our province to take action.

Q. Would different personality qualifications be necessary in the man who makes a loan as distinct from the man who collects them?—A. In the approach to the operational problem, Mr. Knight, we cover that. I think it is on page 8 of the brief. Rather than jump ahead, would it be fair to deal with the question later? I would prefer to deal with it then.

Q. Very well. I bring the matter up because in my experience with implement companies a good many years ago I discovered that they sent a different type of man to get the money than they sent to sell the machine.

The CHAIRMAN: It is 10 o'clock gentlemen.

Mr. FULTON: Before we leave this subject I would be interested to know what methods of discipline are open to you. You mentioned expulsion from your association. Is that the only disciplinary action you could take?

The WITNESS: Actually it is the only disciplinary measure. We feel, however, that a company which is expelled from the association immediately assumes a new identity with the people in the same type of business, and I feel that the attitude of his associates will not take very long to curtail his activities and certainly improve his operations.

Mr. FULTON: Perhaps we could follow that up next Tuesday.

The CHAIRMAN: We shall meet on Tuesday next at 3.30 p.m. The meeting is adjourned.

APPENDIX "A"

OTTAWA, July 12, 1956.

Mr. Alex G. Climans,
President and General Manager,
Merchants Finance Limited,
21 Dundas Square,
TORONTO, Ontario.

Dear Sir,

I am instructed to advise you that at a meeting of the Standing Committee on Banking and Commerce held this morning, certain questions were asked of Mr. K. R. MacGregor, Superintendent of Insurance, regarding the rate of interest computed on an annual basis on certain loans which have been made by your company.

Pursuant thereto, the Committee resolved that Merchants Finance Limited be invited to appear before the Committee to explain its operations.

I cannot yet advise you of the exact date when you will be expected to have a representative appear before the Committee, but I will do so as soon as possible.

Yours very truly,

(Sgd.) ERIC H. JONES
*Clerk, Standing Committee
on Banking and Commerce.*

MERCHANTS FINANCE LIMITED

1409 Hermant Bldg.
21 Dundas Square
Toronto 1, Canada

July 17th, 1956.

The Honourable J. W. G. Hunter, Q.C., M.P.,
Chairman, Banking and Commerce Committee,
House of Commons,
OTTAWA, Ont.

Dear Sir,

Owing to the great concern expressed by the Canadian Consumer Loan Association, through its President, and the irreparable damage to my business and personal reputation resulting from the charge of the Superintendent of Insurance before your committee, specifying a charge of 85% per annum to a borrower, and later modified to 80%, I phoned Mr. MacGregor on Friday, July 13th, asking him to identify the transaction on which he based his computational statement before the committee.

He identified his statement to be based on the complaint of one Murray Ward, 393 Nairn Avenue, Toronto, Ontario. The particulars of this loan are as follows:

The loan was negotiated in August 11, 1955 for a total amount of \$2,100.00, repayable in 24 monthly instalments of \$87.50 each commencing on the 11th day of September, 1955, and monthly thereafter on the 11th day of each month. The net amount advanced was \$1,500.00 so that the charges, including prepaid interest, disbursements, valuation fees, legal fees, registration fees and other costs amounted to \$600.00. The security obtained was household furniture under a chattel mortgage, together with a chattel mortgage on a 1953 Ford Panel Truck. In addition, there were two co-signatories, Mr. and Mrs. Masson Lee Smith. The co-signatories pledged household furniture by way of chattel mortgage and also gave a third land mortgage as collateral security to their chattel mortgage.

The truck was in poor condition with a value of about \$450.00. Ward's furniture was not paid for and was subject to liens and was subsequently seized by the respective vendors to Ward. The chattels owned by Smith are in somewhat the same position and the collateral third land mortgage has a very doubtful value being behind two substantial first and second mortgages on a property on McRoberts Avenue in the City of Toronto.

As evidenced by the above security there was a substantial amount of risk involved as is indeed the case with all loans of this type. We do not think we have to labour this point. Merchants Finance had trouble with the loan from the outset. The first payment was received on September 20th and not on September 11th, when due, and this cheque was returned "N.S.F." The payment was subsequently received from the co-signatories on October 6th. The account has constantly been in arrears. There was another "N.S.F." cheque given on November 15th. All succeeding payments were made by the co-signatories.

Subsequently Ward abandoned the truck and the household furniture and the truck was turned over to the co-signatories in order to protect them on the loan. We are unable to ascertain Ward's whereabouts.

A letter was received from Mr. K. R. MacGregor, Superintendent of Insurance on February 29th, 1956, stating that he had received a complaint from Mr. Murray Ward, and requesting that I send him a summary of the history of this loan. A copy of this letter is attached. My Solicitors replied to this letter on March 6th, 1956, a copy of which is also attached.

At no time has Mr. MacGregor or his examiners visited my office to examine this account, and it is quite apparent that his statement of the 85% or 80% rate was based upon the *assumption* that Mr. Ward seriously intended and did in fact repay his account in advance. Of course this is completely erroneous as the correspondence will reveal.

In order to give the interested parties a complete picture of the average rate of charge made by my Company for loans over \$500.00, I have attached a statement from Rumack, Seigel and Company, Chartered Accountants. This shows the gross charges earned for the last six years to average 25.8% of average amount of accounts receivable during the period.

I respectfully draw these facts to your attention in the interest of complete disclosure, rather than acceptance of what must be uninvestigated complaints.

I have made these facts available to the Canadian Consumer Loan Association, and will, in addition, await your pleasure in the matter of appearing before the Committee.

Yours very truly,

MERCHANTS FINANCE LIMITED

(Sgd.) ALEX G. CLIMANS,

President

DEPARTMENT OF INSURANCE
OTTAWA, CANADA

FEBRUARY 29th, 1956

Mr. Alex G. Climans, President,
Merchants Finance Limited
21 Dundas Street,
TORONTO, Ontario.

Dear Mr. Climans:

We have received a complaint from Mr. Murray Ward, 393 Nairn Avenue, Toronto, concerning a loan of \$1,500.00, that he apparently arranged with your Company a few months ago.

As I understand it, the charges imposed were \$600.00 and repayments were to be made over a period of two years at the rate of \$87.50 per month. After making six payments, Mr. Ward seemingly desired to pay off the debt but was informed that a reduction of only \$100.00 would be allowed against the original charges of \$600.00.

Apart from the average rate involved being nearly 3% per month, even if the loan had run to maturity, the refund mentioned seems to be unduly small.

I should be greatly obliged if you would let me have a summary of the history of this loan, including its present status and the refund offered or allowed recently for complete repayment.

Yours truly,

K. R. MacGregor
Superintendent of Insurance.

MARCH 6, 1956

K. R. MacGregor,
Superintendent of Insurance,
Department of Insurance,
OTTAWA, Ontario.

Dear Sir:

Re: Merchants Finance Limited and Murray Ward 393 Nairn Avenue.

Your letter of February 29th addressed to Mr. Alex G. Climans, President of Merchants Finance Limited has been handed to us for reply.

This loan was negotiated in August, 1955 for a total amount of \$2100.00 repayable in 24 monthly instalments of \$87.50 commencing on the 11th day of September, 1955 and monthly thereafter on the 11th day of each month. The net amount advanced was \$1500.00 so that the charges including repaid interest, disbursements and costs amounted to \$600.00. The security obtained was household furniture and a chattel mortgage, together with a chattel mortgage on a 1953 Ford panel truck. In addition there was a co-signatory who pledged household furniture and gave our clients a third land mortgage as collateral to the chattel mortgage.

As evidenced by the above security there was a substantial amount of risk involved as is indeed the case with all loans of this type. We do not think we have to explain to you that people come to finance companies and are prepared to pay a somewhat larger rate of interest only when they do not have the type of security on which they can obtain a loan from the banks at a lower rate of interest.

Our clients had trouble with this loan from the very first payment, which was received on September 20th rather than on September 11th when due and which cheque was returned "N.S.F.". The payment was subsequently received from the co-signatory on October 6th. The account has constantly been in arrears and there was another N.S.F. cheque given on November 15th.

There is presently a balance of \$1575.00 owing and our clients have offered Mr. Ward a rebate of \$115.00 if the account were paid in full forthwith, which would leave a net amount due by Mr. Ward of \$1460.00.

While you state that the refund offered seems to be unduly small, nevertheless our clients had to do the usual work involved in processing the loan, including appraisals, searching, registration, execution of instruments, legal work and general office overhead.

In addition of course the risk involved in this transaction as set out above has to be considered from the inception of the loan and our clients are of course entitled to be compensated for such risk.

If there is any further information you require, will you kindly advise.

Yours very truly,

SHERMAN & MIDANIK

Per:

MERCHANTS FINANCE LIMITED

ANALYSIS OF LOANS OVER \$500.00

Year	Average Amount of Accts. Rec. during Year	Gross Interest Earned	Percent of Gross Interest to Accts. Rec.	Net Profit	Capital Employed	Per Cent of Net Profit to Capital Employed
	\$	\$	%	\$	\$	%
1955.....	565,965	168,127	29.0	40,757	305,611	13.3
1954.....	506,807	153,144	30.2	28,554	248,925	11.4
1953.....	469,306	114,095	24.3	25,649	209,814	12.2
1952.....	416,921	100,645	24.2	14,148	166,675	8.4
1951.....	377,842	90,303	23.9	12,742	145,436	8.7
1950.....	332,978	79,976	23.7	16,719	136,701	12.2
Totals for 6 years.....	2,669,820	706,290	155.2	138,569	1,213,162	66.2
Average per Year.....	444,970	117,715	25.8	23,095	202,194	11.0

NOTE:—Mr. A. G. Climans has personally guaranteed a bank loan which has averaged about \$250,000.00 for the past 6 years. Actually this figure should be added to the "capital employed" in order to arrive at the true percentage of "net profits to capital employed".

We hereby certify that the above listed figures were taken from the books and records of Merchants Finance Limited.

Dated at Toronto, Ontario, this 13th day of July, 1956

(sgd.) Rumack, Seigel and Company,
Chartered Accountants.

Dec
Canada Banking and Commerce
Standing Committee on 1956
HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

—
STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

—
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

—
BILL 51

An Act to amend the Small Loans Act

—
LIBRARY
TUESDAY, JULY 24, 1956

★ NOV 22 1956 ★

UNIVERSITY OF TORONTO
WITNESS

Mr. C. M. Cawker, President, Canadian Consumer Loan Association

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Ashbourne	Hamilton (York West)	Rea
Balcom	Hanna	Regier
Batten	Henderson	Robichaud
Bell	Hollingworth	Rouleau
Benidickson	Holowach	St. Laurent (Temis- couata)
Blackmore	Huffman	Stewart (Winnipeg North)
Cameron (Nanaimo)	Knight	Thatcher
Carrick	Low	Tucker
Crestohl	MacEachen	Viau
Deslieres	Macnaughton	Vincent
Enfield	Matheson	Weaver
Eudes	Meunier	White (Hastings- Frontenac)
Fairey	Michener	White (Waterloo South)
Fleming	Monteith	
Follwell	Nickle	
Fulton	Pallett	
Gingues	Philpott	
Gour (Russell)	Power (Quebec South)	

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, July 23, 1956.

Ordered,—That the name of Mr. Batten be substituted for that of Mr. Fraser (*St. John's East*);

That the name of Mr. Gingues be substituted for that of Mr. Valois;

That the name of Mr. Meunier be substituted for that of Mr. Richardson;
and

That the name of Mr. Holowach be substituted for that of Mr. Quêlch, on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, July 24, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Cameron (*Nanaimo*), Deslieries, Fleming, Follwell, Fulton, Hanna, Hollingworth, Holowach, Hunter, Knight, Macnaughton, Matheson, Monteith, Philpott, Regier, Rouleau, St. Laurent (*Temiscouata*), Thatcher, Viau and White (*Hastings-Frontenac*).

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

On motion of Mr. Hollingworth, seconded by Mr. Philpott,

Resolved,—That Mr. Deslieries be substituted for Mr. Valois as Vice-chairman of the Committee.

On motion of Mr. Macnaughton, seconded by Mr. St. Laurent (*Temiscouata*),

Resolved,—That Mr. Low be substituted for Mr. Quelch on the Subcommittee on Agenda and Procedure.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Following debate, it was moved by Mr. Knight, seconded by Mr. Regier, That this Committee rise now and that the bill be reported to the House at the first possible moment.

The Chairman ruled the said motion out of order; whereupon Mr. Regier appealed the ruling.

Following debate the Chairman stated that he proposed immediately to report to the House as follows:

Mr. Knight has stated that in his view the Banking and Commerce Committee should immediately report Bill 51 to the House of Commons, even though the Canadian Consumer Loan Association has only just started making its representations, and he accordingly moved, seconded by Mr. Regier, that the Banking and Commerce Committee immediately report Bill 51 to the House of Commons. I, as Chairman of the Banking and Commerce Committee, ruled that the motion was out of order since Bill 51 had not yet been carried by the Committee section by section, nor had the title been carried nor the bill carried. Mr. Regier appealed my ruling.

Thereupon, at 4.00 o'clock p.m., the Chairman adjourned the Committee to the call of the Chair.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Bell, Benidickson, Cameron (Nanaimo), Deslieries, Eudes, Fairey, Fleming, Follwell, Fulton, Hamilton (York West), Hanna, Henderson, Hollingworth, Holowach, Hunter, Knight, Macnaughton, Meunier, Monteith, Philpott, Regier, Robichaud, Rouleau, St. Laurent (Temiscouata), Viau, Weaver and White (Hastings-Frontenac).

In attendance: The same as at the afternoon sitting with the addition of M. Preston J. Heiman, Statistician, Canadian Consumer Loan Association.

The Chairman reminded the Committee that, immediately prior to the adjournment of the afternoon sitting this day, Mr. Regier had appealed his ruling to the effect that a motion by Mr. Knight was out of order. The Chairman stated that he had since referred the matter of Mr. Regier's appeal to the House and that Mr. Speaker had thereupon ruled that the ruling of a chairman of a select committee is subject only to an appeal to the committee concerned.

The Chairman then put the said ruling to the Committee. The ruling was sustained on the following division:

Yeas: Messrs. Balcom, Batten, Deslieries, Fairey, Follwell, Henderson, Hollingworth, Macnaughton, Meunier, Philpott, Robichaud, Rouleau, St. Laurent (Temiscouata), Viau and Weaver—15;

Nays: Messrs. Bell, Cameron (Nanaimo), Fleming, Fulton, Holowach, Knight, Regier and White (Hastings-Frontenac)—8.

It was then moved by Mr. Regier, seconded by Mr. Cameron (Nanaimo), That the Committee now proceed to the consideration of the bill itself.

Thereupon Mr. Fulton moved a superseding motion, seconded by Mr. Bell, namely,

That Mr. Regier's motion be referred to the Subcommittee on Agenda and Procedure.

The said superseding motion was negatived: *Yeas*, 8; *Nays*, 10.

The main motion being then put, it was negatived: *Yeas*, 8; *Nays*, 13.

Mr. Cawker was again called; he continued the presentation of the brief of Canadian Consumer Loan Association and was questioned thereon. Messrs. Oakes, Heiman and MacGregor answered questions specifically referred to them.

Mr. Cawker being still before the Committee, at 10.00 o'clock p.m. it adjourned until 3.30 o'clock p.m. on Thursday, July 26, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 24, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. HOLLINGWORTH: Mr. Chairman, I move, seconded by Mr. Philpott, that Mr. Deslieres be substituted for Mr. Valois as vice-chairman of the committee.

The CHAIRMAN: Thank you. Mr. Valois. On account of illness at home Mr. Valois had to resign as vice-chairman.

You have heard the motion, gentlemen. All those in favour? Contrary, if any? I declare Mr. Deslieres elected vice-chairman of the committee.

Mr. MACNAUGHTON: Mr. Chairman, I move, seconded by Mr. St. Laurent, that Mr. Low be substituted for Mr. Quelch on the subcommittee on agenda and procedure.

The CHAIRMAN: You have heard the motion. All those in favour? Contrary, if any? I declare Mr. Low substituted for Mr. Quelch on the subcommittee on agenda and procedure.

Mr. FLEMING: Mr. Chairman, before we proceed I should like to raise a question of privilege.

I think that all of us felt, when we were assigned to this committee and the committee was asked to undertake a study of this bill, that it was with the thought in mind that the bill was going to be reported back to the house and disposed of at this session.

Mr. Chairman, in the *Toronto Telegram* of Saturday, July 21, appears an article of Mr. Peter Dempson, member of the press gallery, in which he has written:

The government plans to shelve its small loans legislation, which would set a sliding scale of reduced interest rates and increase the ceiling for loans.

The bill, already given second reading—approval in principle—by the commons, is now before the commons' Banking and Commerce Committee.

The government intends, at the next session, to bring in a revamped bill, probably calling for the same ceiling of \$1,500 set out in the new legislation introduced this year, but with changes in the interest rate schedule. Existing small loans legislation provides for a ceiling of \$500.

The decision to scrap the small loans bill is said to stem from mounting opposition to it by both Liberal and Conservative M.P.'s. Main support for the legislation has come from the three C.C.F. members on the committee.

Liberals and Conservatives, it is understood, have come to the conclusion the sliding scale of reduced interest rates proposed in the bill would be impracticable. Many of the smaller loan companies, particularly the Canadian ones, would be forced out of business.

I may say that an article with similar purport appeared in the *Ottawa Citizen* of yesterday, written by Mr. Frank Swanson of the press gallery, in which the following statements appear:

The government plans to shelve its small loans legislation which would have set a sliding scale of reduced interest rates and increase the maximum ceiling for loans, it was learned today—

The government plans at the next session to bring in a revamped bill, probably calling for the same ceiling of \$1,500 set out in the present legislation but with changes in the interest rate schedule—

With the session expected to end in about two weeks' time, the government plans to leave the bill before the committee without having it returned to the house. This could be done since the government has a majority on the committee.

A new bill could then be introduced at the next session to replace the one now before the banking committee.

The decision not to proceed with the small loans bill is understood to stem from mounting opposition to the bill. Main support for the bill has come from the C.C.F.

Liberal and Conservative M.P.'s it is understood, have come to the view that the sliding scale of interest rates in the bill would be impracticable. Many of the small loans companies, especially Canadian firms, might be forced out of business.

Mr. Chairman, I would like to say in the first place that we all recognize that this is quite a formidable undertaking and quite a large task which was assigned to this committee. But I wish to say, for those of us who are Conservatives on this committee, that we do want to see this matter carried forward and we do want to see the work of the committee concluded in time, if it is physically possible, to report the measure to the house at this session for whatever action the houses chooses to take.

I think that if it is the government's intention, with its majority on this committee, that the bill shall not be reported back to the house at this session, we ought to be told. I simply want to say, for those of us who are Conservative members on this committee, that we are quite prepared to sit and to attend as many meetings as this committee chooses to arrive at a conclusion on this important study at this session. We will do anything within our power to cooperate in completing at this session the task assigned to us, and, if physically possible, in time for the House of Commons and Senate to take such action on it as is their intention. But I do think—and I was hoping to direct my remarks particularly to Mr. Benidickson as parliamentary secretary to the Minister of Finance who sponsored this bill—

The CHAIRMAN: Parliamentary assistant.

Mr. FLEMING: Pardon me—parliamentary assistant to the Minister of Finance who sponsored this bill—that we should now have an authoritative statement from him as to the government's plans and intentions with reference to the disposal of this bill at this session. We are having a meeting of the agenda committee tonight, Mr. Chairman, which you have called, and no doubt this matter is bound to engage the attention of that subcommittee, and I think in all fairness that the government ought to tell us now, for the information of all the members of this committee, just what its purposes are with reference to this bill, particularly in the light of these reports and articles which I have read.

Mr. KNIGHT: Mr. Chairman, I would like to speak a moment to the question of privilege raised by Mr. Fleming. I would point out that I personally was on my feet for a moment or two before Mr. Fleming spoke and was asking for the floor; but that is incidental.

The CHAIRMAN: You did not say that you had a question of privilege.

Mr. KNIGHT: All right; we are being very formal.

I want to say that I do support what Mr. Fleming has said.

Now, I do not dispute the right of any member of this committee to have any opinion, whether he is a Liberal, Conservative or what he is, in respect to this bill. I think it has become fairly obvious—certainly I think there is some accuracy in the report which Mr. Fleming read—aside from the report that the majority of the people in this committee, irrespective of their political opinions, do not want this report acted on at this session. If that is true, we are merely wasting our time here. A good many of us are pretty busy and have points on the estimates which we think should be discussed. I for one do not believe in a bunch of grown men simply sitting here until the time is too late to report to the house.

I make it perfectly clear that every member in this committee has a right to do what he likes and I too, under the rules, have the same right to express myself in the way in which I am doing.

Mr. Fleming has expressed his desire to get the bill before the house. We have had various predictions as to what day the house might close. It is my opinion that if this bill is not reported within the next day or two that definitely kills it for this session. If so, and it is definitely killed for this session, why keep this array of gentlemen, who undoubtedly are as busy as I, sitting around here?

I will go further than Mr. Fleming and I will move that this committee now rise and report the bill to the House of Commons for the reasons which I have stated.

Mr. REGIER: I second the motion.

Mr. PHILPOTT: Speaking on Mr. Knight's motion—

The CHAIRMAN: First of all, a motion is quite out of order at this time because we are still dealing with the question of privilege. If you wish to make the motion later, that is your privilege; but, at the moment, there is a question of privilege before this committee.

I believe that I can speak for the Liberal party and say that the Liberal party has no control over the mental peregrinations of Peter Dempson or Frank Swanson. I do not know which crystal balls they used, but I can assure you that they have not consulted any Liberal crystal balls.

The instructions which I have, as chairman of this committee, are to go ahead, hear the evidence, and report the bill. The evidence is to be heard before this committee and that is all there is to it. If we can report the bill, fine; if we cannot get through the evidence, then we cannot report the bill; but the evidence is to be presented. To go ahead and report the bill at this time without hearing the other side of the question would be a great injustice.

Mr. PHILPOTT: I for one think that it is a piece of barefaced impudence to have that comment come from Mr. Fleming, because nine-tenths of the time wasted in this committee has been wasted by Mr. Fleming and his colleagues.

Mr. FLEMING: Mr. Chairman, I suppose that one should ignore hysterical outbursts of this type. It is an irrational comment on the face of it and I do not intend to let barefaced insults of that kind go unanswered. This is a palpable insult based on a monstrous distortion of the truth. If parliamentary language permitted something stronger than that, I would have it to say about this completely false outburst from the member. The record will speak for itself both as to the character and number of questions asked, and so far as—

The CHAIRMAN: Is this helping the committee at all? You have made your point quite clear that you disagree.

Mr. FLEMING: I always disagree with falsehoods.

Mr. KNIGHT: If the question of privilege is disposed of, I would like to move the motion which I started a moment ago when I was not in order. For that I apologize.

I move that this committee rise now and that the bill be reported to the house at the first possible moment.

In speaking to the motion I want to make one or two things plain, if I have not, and I shall try to be as brief as possible.

The CHAIRMAN: May I say, in my opinion, that this motion is entirely out of order. We have not even considered the bill.

Mr. KNIGHT: I would be delighted to make my motion that we do consider the bill. I am only a new member on this committee, but perhaps as a comparative outsider I am in a pretty good position to see what the position of this committee is as I come to it new. I am quite prepared, if I can get any support in this committee, to have the bill so considered; and I would be delighted if we could consider the bill. In understand that this committee has been meeting now for some weeks for the purpose of considering Bill 51, and I understand that the bill has not been so considered. That exactly is my complaint.

If this committee is not prepared to sit down and earnestly consider this bill, then, with a view to having it moved into the House of Commons, I would like to move that this bill be so considered. I think the best way we can do so is to put it up to the House of Commons and have a debate on the bill take place there, because this committee has not, as far as I can see, carried out its terms of reference in regard to the study of this particular bill.

The chairman says that the bill had never been considered and has never been seen publicly in this committee. If the chairman would give me some direction, I would do that; but I shall stick to my original motion, because at this late date I see no chance of having a thorough consideration of the bill. Therefore I hereby move, if I am in order, not to carry on, and without repeating my original motion, that this committee now rise and report the bill accordingly.

The CHAIRMAN: It has always been my understanding that you cannot report a bill until you have gone over it section by section. Accordingly I rule your motion out of order, Mr. Knight.

Mr. REGIER: Mr. Chairman, I seconded that motion and I maintain that your ruling is quite beyond your powers to rule. This motion was definitely in order. We have been sitting on this bill for, I believe, a month now. We have been considering the effect of the bill. Therefore we have been considering the bill, even though no one has been monitoring us and reading out to us the exact wording of the bill. I understand the committee has the power at any time to consider that it has dealt with the bill, and that this committee has the right to report the bill without having read it clause by clause.

I do not know whether you have yet made a ruling. However if that should be your ruling, then I must challenge your ruling and ask that there be a recorded vote taken.

The CHAIRMAN: I definitely rule that you cannot report a bill until you have gone over it section by section and approved its title, and so on.

Mr. REGIER: In that case, Mr. Chairman, I appeal your ruling and ask that a recorded vote be taken, and let us for once have the counting of the sheep.

The CHAIRMAN: Have the counting of what?

Mr. REGIER: The counting of the sheep.

Mr. FOLLWELL: And the goats, too.

The CHAIRMAN: We have always counted the members of the committee when we have had a count taken. Are you saying that the count has been wrong?

Mr. REGIER: No, I mean the recording.

The CHAIRMAN: Very well then, all those in favour of reporting to the house now without considering the bill first will please raise their right hands.

Mr. FLEMING: Mr. Chairman, it is my understanding that an appeal against the ruling of the chairman of a committee has to go to the house.

The CHAIRMAN: I do not think so.

Mr. REGIER: Definitely, of course. Mr. Chairman, I have sat in committee meetings before, and my understanding of the rules is that they definitely call for an appeal from a ruling of the chairman to be reported to the house.

The CHAIRMAN: If so, we shall do it.

You are quite right, the appeal is to the House of Commons.

Mr. HOLLINGWORTH: Mr. Chairman, what is the result of your cogitation? What is to be the procedure now?

The CHAIRMAN: The procedure is to appeal the ruling of the chairman to the House of Commons.

Mr. HOLLINGWORTH: Will you adjourn the committee while you are doing that?

The CHAIRMAN: Obviously.

Mr. FOLLWELL: You may come back next week.

Mr. KNIGHT: Or the week after.

The CHAIRMAN: When there is no recorded vote here the matter is referred directly to the house.

This is what I propose to report to the House of Commons:

Mr. Knight has stated that in his view the Banking and Commerce Committee should immediately report Bill 51 to the House of Commons, even though the Canadian Consumer Loan Association has only started making its representations, and he accordingly moved, seconded by Mr. Regier, that the Banking and Commerce Committee immediately report Bill 51 to the House of Commons. I, as chairman of the Banking and Commerce Committee, ruled that the motion was out of order since Bill 51 had not yet been carried by the committee section by section, nor had the title been carried nor the bill carried. Mr. Regier appealed my ruling.

Mr. KNIGHT: On a point of order, Mr. Chairman, I think you stated that I said that in view of the fact that we have just started a study of the brief submitted to the Banking and Commerce Committee. I did not say anything about that. I said that in view of the fact that the bill had not been produced before this committee after four weeks of sittings had elapsed.

The CHAIRMAN: In my opinion, Mr. Knight, it would not be a fair representation to the House of Commons for it to hear one side of the case and without having heard the other side of the case—without the House of Commons knowing that the other side of the case had not been heard.

That is what I am proposing to report, gentlemen. The committee is adjourned pending the decision of the House of Commons.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. PHILPOTT: Mr. Chairman, on a point of privilege. At the last hearing Mr. Fleming was very much annoyed because he said I accused him of monopolizing too much of the time of the committee. In the interval I have made an analysis, and this is what has happened in this committee: the Conservatives who have nine members on this committee, have intervened 101 times; the Liberals, who have 32 members on this committee, 73 times; the C.C.F., who have four members on this committee, 71 times; the Social Credit, who have three members on this committee, four times. Of the first 600 pages of the printed evidence of this committee 127 pages were directly due to the questions asked by Mr. Fleming.

The CHAIRMAN: Well, that is very interesting evidence!

Mr. FLEMING: Mr. Chairman, all I have to say is that I do not believe those figures. That is not an official analysis, and I do not believe it for one minute. The fact is, as we well know, Mr. Chairman, that interventions can be long or they can be short, and the answers can be long or they can be short, that the questions gave rise to. This kind of unofficial analysis just is utterly meaningless, particularly when it was brought forward to try to back up an irrational and abusive attack made this afternoon by Mr. Philpott. It disentitles itself to being taken seriously by any person.

The CHAIRMAN: Mr. Fleming, I would remind you that there is a quotation from Hamlet which says: "The lady doth protest too much me thinks". I would be careful!

Mr. FLEMING: Perhaps I should not take the remarks of Mr. Philpott seriously, anyway.

The CHAIRMAN: Gentlemen, before we adjourned there was a ruling appealed, which was taken to the house. Mr. Speaker has since ruled that a ruling of the chairman of a select committee is subject only to an appeal to the committee concerned. Therefore, at present, there is a motion before the committee which was made by Mr. Knight, seconded by Mr. Regier, that this committee should forthwith report Bill 51. Your chairman ruled that motion out of order on the grounds that we have not yet passed the bill, section by section, nor have we passed the title, nor the bill as a whole. My decision, as chairman, was appealed by Mr. Regier. All those in favour of sustaining the chairman's ruling will please raise their right hands.

Mr. KNIGHT: A recorded vote, please.

The CHAIRMAN: Right, a recorded vote. Those who are in favour of sustaining the chairman's ruling will answer yea and those against the chairman's ruling will say nay.

The chairman's ruling is sustained.

Mr. REGIER: Mr. Chairman, I would like now to move that we now proceed to the consideration of the bill itself.

The CHAIRMAN: Is there a seconder for that motion?

Mr. CAMERON (Nanaimo): I will second it.

The CHAIRMAN: Moved by Mr. Regier, seconded by Mr. Cameron that the committee now proceed to the consideration of the bill itself. Before anybody speaks to that, I would simply point out that at this stage that would be taking one aspect of the evidence only and completely failing to hear any other aspect of it.

Does anybody wish to speak to this motion?

Mr. HOLLINGWORTH: Mr. Chairman, I think we should hear the witnesses, and then we will have heard both sides of the question. After that, I would than recommend that we proceed to discuss the bill, clause by clause. I would point out that if we do not hear this brief which is being presented by the witness I do not think it is really fair, because we are not giving the other side an opportunity to state its case.

Mr. CAMERON (*Nanaimo*): Can I assume from what Mr. Hollingworth has said that he thinks we should be satisfied with hearing the reading of this brief by Mr. Cawker?

Mr. HOLLINGWORTH: Yes.

Mr. CAMERON (*Nanaimo*): And that should be considered the case for the—

Mr. HOLLINGWORTH: That is the other side of the case, I would say, yes.

Mr. VIAU: Not only that, but without having taken a formal motion the other day the committee decided to have this brief presented to the committee, so such a motion just now would be out of order.

Mr. REGIER: Mr. Chairman, I contend that the committee has the right at any time to hear the evidence it wants to hear, and when it has decided that it has heard enough evidence, the committee then has a perfect right to go on to the consideration of the bill itself. I believe you, or one of the members of the committee, mentioned that if this motion were passed we would have heard only one side. I do not think that is the case at all. I think that a reading of the minutes over the minutes over the past month will reveal that there were very able spokesman here in opposition to the bill, and every possible angle of the opposition that I can think of has, I believe, been fully explored. I would just like to point out to the members of the committee that not only must this bill, if it is to be at all successful, be reported back to the house, but it has to be considered by the committee of the whole house, and then it has to come up for third reading, and then it has to pass the "other place". We all know we are working under a deadline, and it seems to me perfectly obvious that if my motion does not pass, there is not a hope in the world of this bill passing and becoming law at this session of parliament.

Mr. FLEMING: Mr. Chairman, you called a meeting of the agenda committee for 10 o'clock tonight, or at least following immediately on the conclusion of this meeting. I wonder if Mr. Regier would not be satisfied to have his motion considered at that meeting tonight.

Mr. REGIER: I would, if there is a way in which I can withdraw the motion until the next meeting.

Mr. FLEMING: Or simply ask that the motion be referred to the agenda committee, and then it can be considered along with the other business? I take it that the agenda committee, Mr. Chairman, must take a look at the whole situation before us in the light of what was said this afternoon, to see, or estimate what remains, and what we are going to have to do to complete the task. I take it that the burden of the remarks made this afternoon was that the committee wants to complete its task, and complete it in time to have the measure dealt with, as it must be, in the house and in the Senate, and then this motion—

The CHAIRMAN: I am not sure you are interpreting the committee correctly on that.

Mr. FLEMING: I may, or may not be. I was interpreting the sense of at least some of the statements made this afternoon. If Mr. Regier were satisfied, I think that the agenda committee could take this motion in hand and weigh it in relation to the problem before us.

Mr. CAMERON (*Nanaimo*): Do I understand, Mr. Chairman—

Mr. MACNAUGHTON: I do not think anybody can object to the agenda committee considering whatever it wants to consider, but it is this committee that decides whatever it wants to in the final analysis.

Mr. FLEMING: The agenda committee can only make recommendations to this committee.

Mr. MACNAUGHTON: You can consider this motion or anything else you like, but this is the committee which will decide who is to be heard.

The CHAIRMAN: There is a motion before the committee. The motion is that we proceed to—

Mr. FULTON: Mr. Chairman, is it not in order to move an amendment—or to be technical, it should, strictly speaking, be called a superseding motion? I do not want to move one unless Mr. Regier is willing.

The CHAIRMAN: There has been no superseding motion.

Mr. FULTON: I would suggest that a motion, that this motion be referred to the steering committee, is in order.

The CHAIRMAN: Any suggestion is in order. But there has not been an amendment to this motion or a superseding motion. If you wish to move an amendment to this motion or to move a superseding motion, that is your privilege, but these suggestions are only holding up the business of the committee. Let us get on with hearing the brief, if we are going to hear it.

Mr. FULTON: I think the mover of the motion said he would be satisfied to have it submitted to the steering committee this evening.

The CHAIRMAN: It is up to him to withdraw his motion then.

Mr. FULTON: I move that this motion of Mr. Regier's be referred to the steering committee.

The CHAIRMAN: I am not sure that that is a superseding motion.

Mr. FULTON: Do you accept it or not?

Mr. FLEMING: Mr. Chairman, I think it is one that is commonly regarded as such in the committees. We have had such motions before in committees where there is an agenda committee, I think quite frequently.

The CHAIRMAN: All right, I will allow that motion.

Mr. HENDERSON: Mr. Chairman, as I understand a steering committee it is to steer you ahead, not to handle something that has come before the committee in the past. Maybe I am wrong. Mr. Regier has a motion before the committee. I do not see how you can refer it to a subcommittee that is set up to look after things in the future.

Mr. FULTON: I have made a motion that Mr. Regier's motion be referred to the steering committee for consideration and report.

The CHAIRMAN: Mr. Henderson, I think it can be referred, but I am not suggesting for a minute that it solves any problem or serves any useful purpose. I am simply saying that I think the motion is in order. Is there a seconder for that motion of yours, Mr. Fulton?

Mr. BELL: I second it.

The CHAIRMAN: The original motion was that the committee now proceed to the consideration of the bill itself. There is a superseding motion that Mr. Regier's motion be referred to the agenda committee. The question now is on Mr. Fulton's motion, that it be referred to the agenda committee. All those in favour of Mr. Fulton's motion will please raise their right hands. All those against Mr. Fulton's motion will please raise their right hands. I declare Mr. Fulton's superseding motion defeated.

Mr. KNIGHT: Mr. Chairman, on a question of privilege. I am a new and perhaps an innocent member of this committee. I would like to know before whom I am speaking or working. I did have the idea at first to move the conventional motion of "I spy strangers in the house", but there are two reasons against that. In the first place because I know that that is one motion which has to be referred to the House of Commons for decision, so, I thought I would avoid that. But, I think I have the right, perhaps, to know—by the way, I hope this will not be construed as inhospitality by the fine looking gentleman that we have before us, but I am given to understand that there are several in attendance at this committee who can definitely be qualified as lobbyists, who have been here at every meeting of this committee, both in the daylight and in the evening.

The CHAIRMAN: Mr. Knight, let us get this clear right now. This is a committee at which any member of the public is permitted to attend.

Mr. KNIGHT: I am well aware of that.

The CHAIRMAN: You have no business commenting on any member of the public attending this meeting.

Mr. KNIGHT: I am not going to do that. I am going to suggest that some of the gentlemen to whom I am referring might be subpoenaed before the committee so that I might obtain from them certain information.

The CHAIRMAN: If you have anybody you want to subpoena before the committee you can make a motion to that effect. But, I am not going to have political speeches made to this committee.

Mr. KNIGHT: I am not making any political speech. I am anxious—other people have been allowed to express their desire that this bill should be reported to the House, or that it is the desire that it should not be. I am simply interested, and I think it is my right to know, as a member of the House of Commons and a member of this committee, who are present at the meetings of the committee.

The CHAIRMAN: I am ruling that you are quite out of order. I do not think it is any of your affair what members of the public attend these open committee meetings.

Mr. KNIGHT: I would like to know in whose interest these people are appearing.

The CHAIRMAN: I am ruling you out of order, Mr. Knight. I am quite convinced in my own heart that you are so completely out of order that I have never heard anything more out of order in my life—in asking what members of the public are attending the meetings of a parliamentary committee.

Mr. KNIGHT: It was not a question as to what members of the public are here. I would like to know what influences are attempted to be brought to bear.

The CHAIRMAN: If you have a specific charge to make, make it; otherwise you are out of order.

Mr. KNIGHT: I am not suggesting that they have any influence upon this committee. I would not suggest such a thing of any member of this committee.

The CHAIRMAN: Mr. Knight, you are just going on and on and on. You are out of order. If you want to "natter on" in this way, I have only one duty, and that is to report you to the House of Commons. If you wish me to do that I will be forced to do it.

Mr. KNIGHT: I could name some of these gentlemen, if necessary.

Mr. FULTON: Perhaps Mr. Knight would be interested to know that Mr. Duncan MacTavish is in the audience.

Mr. KNIGHT: I have known him for many years, and I am not saying anything about him. I have not mentioned his name—

The CHAIRMAN: Let us stop this nonsense now. Talk about wasting time! I want to get on with this bill, though you may not. Let us go on with the brief.

Mr. MACNAUGHTON: It is quite possible that some of these gentlemen are here to assist the committee.

Mr. KNIGHT: Let us have them on the stand. Let us hear what they have to say.

The CHAIRMAN: You want more witnesses, Mr. Knight?

Mr. KNIGHT: I would not object to some.

The CHAIRMAN: You would not object to some, if you could chose them?

Mr. KNIGHT: I would like to find out who is paying for them to be here.

The CHAIRMAN: The main motion before us is that we proceed to the consideration of the bill itself, by Mr. Regier.

All those in favour of the motion?

All those against the motion?

The motion is defeated.

We will carry on with the consideration of this brief. We have come to page 2, I believe—Legislative studies.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called.

The WITNESS: Mr. Chairman, at the conclusion of Thursday night's consideration I believe a question was raised concerning the purpose and the code of ethics of this association, and with the permission of the committee I would, very briefly and quickly, like to read article eight and article nine of the by-laws of the association. The heading of the first article is "Purpose of Association" and of the second article, "Code and Ethics and Business Standards". This may clear up the last point which was raised before the committee adjourned on Thursday night.

The CHAIRMAN: Right!

The WITNESS:

ARTICLE VIII—PURPOSE OF ASSOCIATION

In addition to the objects set out in the letters patent of the association, the following are declared to be the purposes thereof;

(a) To improve the operating standards of its members and to promote the best interests of the small loans business and its customers.

(b) To bring to the attention of the supervising authority or other proper government officers infractions of laws applicable to the business and to assist such authorities in the enforcement of such laws.

(c) To promote general recognition of the truth that success of those engaged in the small loans business is primarily dependent on public confidence and good-will, which can be acquired and maintained only through sound operating policies, efficient service and fair dealing.

(d) To maintain the small loans business as a constructive agency in community life, affording considerate and responsible sources of cash credit for worthy borrowers in accordance with the Small Loans Act, 1939, of the Dominion of Canada.

(e) To encourage and maintain truthfulness in advertising and promote policies calculated to cultivate an increasing public confidence in the small loans business.

(f) To assist in familiarizing Canadian families with the benefits to be derived from sound management and intelligent use of the family income.

(g) To encourage all members to cooperate with Better Business Bureaux, Chambers of Commerce, Boards of Trade, Welfare Societies and other public service agencies striving to improve economic and social conditions.

(h) To compile and make available and disseminate information relating to the business as a whole for the use of its members, legislative committees, and the general public.

ARTICLE IX—CODE OF ETHICS AND BUSINESS STANDARDS

(a) Members will explain fully to customers the actual cost, terms and contractual obligations of loan transactions.

(b) Members will use in all loan transactions written instruments worded in as simple, lucid, and unambiguous language as circumstances will permit and will draw such instruments with a view to the bona fide application of these standards of business conduct.

(c) No member shall take any note, promise to pay, or security that does not accurately disclose the actual amount of the loan, the time for which it is made and the agreed rate of charge, nor any instrument in which blanks are left to be filled in after execution.

(d) Every member shall, if so requested by the borrower, deliver to the borrower at the time any loan is made, an exact copy of any note, loan contract, chattel mortgage, lien agreement or wage assignment, signed by the borrower.

(e) Every member shall give to the borrower on demand a plain and complete receipt for all payments made, specifying the amount applied to loan charges and the amount, if any, applied to principal, and stating the unpaid principal balance, if any, of such loan.

(f) Upon repayment by a borrower of his indebtedness in full, every member shall mark indelibly such evidence of indebtedness signed by the borrower with the word "paid" or "cancelled", restore any pledge, return any note or loan contract or assignment given to the member by the borrower and upon request release any mortgage.

(g) Every member shall display in each place of business a full and accurate schedule of the charges to be made and the method of computing same.

(h) Members will endeavour to transact all business in such manner as to merit the respect and confidence of customers and the public.

(i) Members will avoid unduly harsh or oppressive collection methods and except in very special cases will resort to legal process for collection only in the event of misrepresentation, fraud, or refusal to comply with the terms of the contract.

(j) Members will adhere to the generally accepted standards of business deportment in competitive relations, in advertising, and in their dealings with the public.

(k) The members agree to take advantage of opportunities to explain the small loans business frankly and fearlessly to the general public, business men, public officials, the press, legislators and others who create public opinion.

Those are the two sections of the by-laws of the association which I think are most appropriate to the question that was asked.

By Mr. Fulton:

Q. I think I asked you at the conclusion of Thursday night's meeting about your code of discipline; I was particularly interested in your method of enforcement and I understood you to say that in the case of any infraction of that code, which I presume relates particularly to sections eight and nine, which is brought to your attention the association would cancel the membership of the offending company. Is there any other step that your association has taken or would take in the case of a particularly flagrant breach of this code of ethics?—A. Under the terms of the act as it is now we have never officially had brought to our attention any breach of the law or of our code of ethics, no matter how strongly we might wish to interpret them. Recently, I believe I mentioned, we have had drawn to our attention some practices of which we certainly do not approve but which have taken place outside the terms of the act, and so we are in the process at the moment of amending our by-laws so that we may take exactly the same action with regard to a member whom we have found to have committed a breach of even good judgment and common decent practice outside the act as it stands now as in the case of one within the act. If a breach under the act or of business ethics takes place now, that is, within the act, the procedure is quite clear-cut, namely to expel that member. And I can assure you that we would, certainly, if there were any act which we considered outside the law, report that situation to the proper authority. I can think of three or four cases in the last five years where usurious practices have come to our notice, by non-licensees—people who are therefore not members of our association. The most recent one happened as late as a month ago, and that is why I am familiar with the circumstances. We reported to the Superintendent of Insurance an illegal lender operating in the city of Montreal who was actually making loans in the field below \$500. We gathered as much information as we were able to gather and immediately passed it on to the Superintendent of Insurance. Of course, on the other side of the ledger we have never actually been informed by the Superintendent of any situation where possibly a practice, though not outside the law, was a questionable practice and where, possibly, we might be able to influence that member or non-member to change his standard of operating.

Q. I do not want to suggest that your association should assume an obligation which legally it is not within its competence to assume and which in terms of practicability might lie beyond your power, but I was wondering whether, in the case of a violation of your code of ethics which your board of directors felt was a pretty bad business, you would take any other action besides expulsion or the cancellation of membership. I will be frank with you: cancellation of membership might not become known to the mind of the borrowing public; would you consider such a step as advertising or publishing the fact that an individual or a company, because of past conduct, was no longer a member of your association? Would you be able to answer the question as to whether your association would extend disciplinary action in this manner?—A. My opinion is that it would be a very practical approach, but I would certainly feel better if I could refer it to our legal advisor. As I mentioned before, such a situation has not occurred yet, and the situation we are considering at the moment is actually outside the scope of our association's activities. My first approach would be, as I have said, to expel the member, and certainly if there were any violation which would come under the regulatory powers of the Superintendent of Insurance we would not hesitate for one minute to report the situation to him. The point you have brought up is a very interesting one, and in our desire to clean up unsavory practices within the industry it is one we would like to consider.

Q. But you are not in a position to give us a definite answer now? It is something which has not arisen?—A. It has not happened, and such a thing is at the moment not covered by our by-laws.

Mr. KNIGHT: When you say it has not happened, do I assume that no such loss of membership or licence has occurred in recent history?

The CHAIRMAN: Loss of membership? They do not issue licences.

The WITNESS: That is right. I am told we did have one such case three or four years ago.

By Mr. Knight:

Q. As the result of disciplinary action taken by you?—A. By the association.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, what privileges and advantages would a member of your association be deprived of if he were expelled from the association? I am trying to find out what would be the consequence of an expulsion.—A. It is rather peculiar, Mr. Cameron, when people start to misbehave, the word seems to get around; I certainly think that it gets around more quickly within the industry itself. I think that the privileges of this association have mainly to do with the continuing campaign which we have been waging, in the twenty-one years I have been exposed to the business, for better public acceptance and a better approach to operating standards. Then, of course, as I mentioned to Mr. Fulton, if there is a breach of the act itself I can assure you that we would have absolutely no hesitation in reporting that situation to the Superintendent of Insurance; in fact we would assist, as we have in the past, in gathering the information which we would need to take whatever disciplinary action he is empowered to take.

Q. I had in mind not actual illegal acts but possibly shady or off colour acts. Did I understand you to say that there is no definite disadvantage which would be incurred by a company except a bad name which would creep around through the industry? For instance, you do not have anything in the way of a central list of bad risks by which you warn your members.—A. No. Do you mean bad lending risks?

Q. If one company has had a bad experience with an individual, is his name kept on a list and passed on to others?—A. No.

Q. And there is nothing in the way of a penalty which you can apply?—A. I can only answer that by saying, on the basis of my twenty-one years' experience, eleven of which have been in operating my own business, that I have found that the advantage, not only through the basis on which I deal with the public, is that, after all, we end up with successful operations. Over my twenty-one years' experience I feel that they are not indefinite advantages; I feel that they are very tangible and definite advantages. We are not a policing organization, only to the point that there is an act; and Mr. MacGregor himself has told you that actually the complaints which occur under the act itself are so negligible that I believe he hesitated to put a figure on them based either on the period of the last year or the last ten years. My own experience in the business would support his view, that the violations under the act itself have been negligible.

Q. I well believe that. We have a fairly active police force in this country. But I wonder just how rapidly the bad name of a company gets spread around. I have here a copy of the publication of the United Automobile Workers of America, published at Brampton, Ontario, in which there is a story which gives names, dates and places, concerning a particular loan company and its victim, in which this company is charged—the name is here and the

date—with having impersonated the Unemployment Insurance Commission in order to gather information about one of its customers, with having taken the security for which this man was indebted—\$350, and, according to their own statement, they sold it for \$30—and finally of having used a so-called consumers' survey for which a bonus of 10 cents was paid, and this rather simple-minded man filled it in and gave all the particulars which the company wished. This was a method of collecting it. The man does not attempt to deny that he owed the money; he was laid off shortly after he undertook this obligation. Promptly, his security was taken over by the company, and as soon as he got a job, within about two months, a garnishee was put on his wages of \$70 for the first cheque, and again a garnishee for the second cheque, despite the fact that in that particular part of Ontario it is well known that if there are two garnishees an employee loses his job. This is dated April 11th of this year. That is quite a long time ago. You say that a bad name gets around; but I still see this company's signs everywhere I go—they are still in business. Now, what is your association's attitude towards that sort of practice? And, if these charges are not true, I wonder why it is that the company, which is one of the largest in Canada and is named here in this article, has not taken steps in the way of legal action against this paper?

Mr. HOLLINGWORTH: What company is it?

Mr. CAMERON (*Nanaimo*): Personal Finance Company. I do not know whether or not the charges are true. However, it was about three months ago; this is a widely distributed publication which goes to thousands of members which I think would have come to the attention of that company, and, I would have thought, to your association.

Mr. FOLLWELL: What publication is it?

Mr. CAMERON (*Nanaimo*): "The Guardian," a publication of the United Automobile Workers Union.

The WITNESS: Are you asking me a question?

By Mr. Cameron (Nanaimo):

Q. Yes. What sort of control have you over your members, when apparently this type of thing can take place, because I see that no action has been taken?—A. You have not read the article, Mr. Cameron, so I do not know the whole story. Mind you, if all these horrible tales which you recite here are true, I am amazed that there has not been some legal action taken. But you have asked me for my comment. I will not labour the fact that I have had some experience in the business and that I have also had the privilege of operating two credit bureaus. However, my first reaction would be, if impersonation of an Unemployment Insurance Commission representative were needed in order to obtain information, that the borrower in question must have been a pretty swift operator on his feet.

Now, this is one case. Possibly I could answer you with something a little more general. This is a letter addressed to my branch office in Oshawa—and I know there are some others in existence—from the United Automobile Workers of America, local 222:

Dear Sir:

May I take this opportunity in extending a thank you for the realistic and considerate attitude shown to the striking members of local 222 during our long ordeal with General Motors of Canada.

Now that we have effected an honourable settlement let us hope we can once again enjoy our normal way of living and resume our obligations in so far as picking up our present and past monthly payments.

Being the one who appealed to you for extensions I feel obligated at this time to make known that our boys have assured me that within a reasonably short time they would do their utmost to take care of all arrears, and in so doing, place their accounts in the healthy position they were prior to our strike.

I also promise, that whenever possible we will remind our members of your fine gesture and consideration and hope that your company continues to serve our community in the same good relationship as in the past.

Respectfully yours,

(Signed) Howard J. Wood,
Chairman,
Shelter and Utilities Committee,
Local 222, UAW-CIO.

Q. That is addressed to you in what capacity?—A. It is addressed to our branch manager in Oshawa.

Q. Of your company?—A. Yes, sir. Now, I read that to you simply because you have mentioned a situation here which I think is evidence of possibly a young inexperienced man who has been just a little bit too eager to do a job. I do repeat to you, in all justice, that I think when a man is laid off—I did not get the particulars as far as this person's employment was concerned—I have not, in my experience, found a situation, certainly not in the last eleven years, where a man is temporarily laid off, or even laid off—to make it more definite—who comes in and tells us the story, that he has not had every consideration. I think possibly this letter is an indication of that. But there might be the case of a man who possibly in his lack of wisdom acts in a certain way—I agree, and that is why I get back to the benefits of public information. And if the man takes the attitude that he wants to hide and ignore the company, then possibly some young inexperienced man is going to take steps which might be considered indiscreet. I deal later on in the brief with the problems of personnel and training of personnel.

Q. It is not true that he tried to run away. He became unemployed, eventually started working at Duplate in February, and told everyone, including the loan company, that he would do his best to pay them all off as soon as he could.—A. I thought you said they had to use the Unemployment Insurance Commission.

Q. Yes. They had been pursuing him.

The CHAIRMAN: This is a specific case you are giving, as put forward in the United Automobile Workers Union publication; whether it is true, we do not know.

Mr. CAMERON (*Nanaimo*): But the point is that this has appeared in the public press, and has been there for some time and no action has been taken.

The CHAIRMAN: Are we going to deal with every specific case which a member can bring up?

Mr. CAMERON (*Nanaimo*): I think that it might be well to deal with a specific case which indicates what control Mr. Cawker's association has, if any, over the members of his association.

The CHAIRMAN: He told you that the only control which they have is to expel a member; that is the only action. I do not see that by labouring this specific case we will get any further ahead. If you want to labour it, go ahead.

Mr. MACNAUGHTON: Why do you not produce the paper and file it?

Mr. CAMERON (*Nanaimo*): I would be glad to. Do you wish to put it in the record? I will move that this particular article be included in the record.

The CHAIRMAN: You have read it, have you not?

Mr. CAMERON (*Nanaimo*): No. I move that this article "I'm Hooked by Finance Company", published in "The Guardian" of Wednesday, April 11, 1956, be printed in the proceedings of the committee.

Mr. REGIER: I second the motion.

The CHAIRMAN: If we print that, which may or may not be true, we have no option but to go into it and call the Personal Finance people to find out the truth of it. I do not see how we can be fair to any or both groups unless we hear both sides.

Mr. CAMERON (*Nanaimo*): Mr. Macnaughton suggested that we file it.

Mr. MACNAUGHTON: File it, but not print it.

Mr. CAMERON (*Nanaimo*): What do you mean by "file it"?

Mr. MACNAUGHTON: We can read what you have told us about it and check up on you.

Mr. KNIGHT: It is already in the record.

The CHAIRMAN: I can also point out that anything which Mr. Cameron read from that article is in the record; but I do not see any point in having a thing like that printed without hearing both sides of the case.

Mr. CAMERON (*Nanaimo*): I thought that Mr. Macnaughton wanted to have a permanent record of it.

Mr. MACNAUGHTON: I just wanted the evidence of what you have been telling us, because I have not seen the article yet.

Mr. CAMERON (*Nanaimo*): Here it is. You may read it.

Mr. MACNAUGHTON: Thank you.

The CHAIRMAN: Will the witness please carry on now with his brief.

The WITNESS:

LEGISLATIVE STUDIES

After various parliamentary studies of private bills dealing with small sum lending, from 1936 to 1938, the Banking and Commerce Committee of the House of Commons in 1938 was directed to "enquire into the practices of individuals, partnerships and companies making loans on personal security and to consider the maximum rate of interest and charges which should be permitted for such loans".

Evidence given before the committee established the following:—

1. Our modern economy creates the need for this type of loan to wage earners and salaried people.

2. This need will be met either by legal and supervised agencies or by illegal lenders at unregulated rates.

3. Chartered banks and credit unions do not meet the need to the extent that it exists.

4. The interest rate of 12 per cent per annum permitted under the Money Lenders Act would not allow a commercial enterprise to meet the cost of making and servicing such loans and at the same time show a reasonable profit.

5. If legal, supervised agencies are to satisfy this demand, the permitted maximum charge to cover every element of cost of such loans must be high enough to enable efficient management to meet the cost of making, servicing and collecting such loans and earn sufficient profit to attract an adequate supply of capital.

This last point was emphasized by experience in some of the United States, notably New Jersey, Virginia and West Virginia. Rates there had been established after exhaustive enquiry and when subsequent laws reduced rates below the level necessary to produce a fair return to the lender, the supply of licensed capital rapidly decreased. The result was a return of high rate, illegal loans in considerable volume.

Such a result would fall far short of serving the borrower's best interest, for a legal rate at which money is not available is of no value to people who need loans. The 1938 committee reported that a maximum rate fixed by law amounts to an injunction that if people cannot borrow at the prescribed rate, they cannot borrow at all. Experience has shown that such an injunction cannot be enforced. People in need of cash will borrow at illegal rates if they cannot find a lender willing to lend within the legal maximum.

The report of the 1938 Banking and Commerce Committee of the House of Commons is attached for reference purposes. In every respect except the loan ceiling and the maximum rate, the report remains as applicable today as it was at that time.

The CHAIRMAN: That is the end of a section of the brief. Are there any questions?

By Mr. Henderson:

Q. You quoted from the evidence given before the Banking and Commerce Committee of 1938 and in paragraph 1 on page 2 you adopted this part of the evidence:

1. Our modern economy creates the need for this type of loan to wage earners and salaried people.

First of all I would like to ask you this question: do you personally, in this business, agree with that paragraph?—A. I do not think there is any question, in view of the number of loans made last year and the volume of business which I think at the moment amounts to 12 or 13 per cent of the total of consumer credit outstanding. It would only indicate that our modern economy does create the need for this type of loan to wage earners and salaried people. We recognize that credit unions serve a very important function where their members are concerned, and we have had it asked here why our customers did not go to the banks to borrow money?

I think the answer to that question is quite obvious; so that, with the trend, when you ask me for my personal opinion, it is my personal opinion that people should be free, and that they should be entitled to involve themselves for a reasonable period of time for things which contribute to their standard of living and which they can enjoy today.

Q. Looking at this more objectively, do you in any way feel that the people of Canada are going too far in that direction in making use of these loans, and is there any guard or guide that your organization or your company provides to prevent people from borrowing money who should not do so, because sometimes people need a little guidance? Do you have any services or guide that you provide in order to prevent an over-extension of borrowing?—A. Well, Mr. Henderson, that in effect asks an opinion as to the wisdom of the Canadian people in the expansion of consumer credit that is going on today. Do I interpret your question correctly?

Q. If I might interrupt, I am sorry, but what I was referring to, and what caused me to ask you is this: when Mr. MacGregor was giving his evidence, in the second paragraph on page 19 of his statement he said:

The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No

doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finances rather than misfortune would seem to underlie a great proportion of the loans made.

You are in the business and you have had some experience of what Mr. Cameron was talking about, where I thought the loan companies were a little too rough on somebody who had borrowed, and it ran in my mind whether they should or should not have taken this loan in the first place. Now, I would like to hear your opinion, when you mention that our modern economy creates the need for this type of loan to wage earners and salaried people, in view of Mr. MacGregor's statement that perhaps we are going beyond prudent limits, and that it was mismanagement of personal finances rather than misfortune which seemed to underlie a great proportion of the loans made.—A. I would say, very frankly, that this is Mr. MacGregor's personal opinion, because the facts contained in table 7 on page 14 of our brief which we shall be considering in due course would give no such indication to us. I feel this way, and I think it is held pretty well by the membership of our association, since we are, on page 19 of Mr. MacGregor's brief, and I think they represent a very substantial portion of our industry. But I would be something less than loyal, I think, to the people with whom we do business, the Canadian people generally, if I did not say that I think this is a terrible indictment of the intelligence of the Canadian people.

We find, by and large, and of course we can always out of the 860 and some odd thousand transactions in the year—we can always find in just one—or more than one something which has unfortunate aftermaths. But the figures do prove that the Canadian family, generally speaking, takes a well planned approach to involving itself in short or long term obligations. I find that due to the opportunity to look at the payments and look at the rates—not the interest—they hear about that on the radio; they come into our offices and they know how much they can afford to pay per month, and generally it is a pretty well planned family business.

The government, for instance, can finance its future out of taxes to be collected; business can borrow on the productivity and the prospects of business in the years to come; and I think that within prudent limits it is only fair that the Canadian family is also entitled to borrow.

I submit to this committee that when we get to table 7 on page 14, you will find we keep a rather careful record of the relationship of borrowing to the credit extended to family income and to the disposal of that income. Therefore I can only disagree with any suggestion that the Canadian people are increasing their debt more due to mismanagement than to misfortune.

Q. May I ask one more question. It is suggested that the decrease should follow factors which we must take into consideration, such as the risk factor. You have had some experience abroad and I would like to hear your opinion as to the comparative risk of Canadian borrowers, on the average, with borrowers outside of this country. In other words, are we good risks or bad risks in Canada?—A. I think there can be only one answer to that question. I think that the Canadian people are good risks.

By Mr. Hollingworth:

Q. What percentage of the people borrowing from you realize that they are paying 24 per cent interest per year? What percentage of people borrowing from the different finance companies realize that they are paying 24 per cent interest per year? Do you tell them that or not?—A. Well, Mr. Hollingworth, really, I do not know that we need to tell them. There has been a rather

broad coverage in the press lately, I would say, concerning the rate that we charge. It might also be interesting to mention here that not only is the figure of 24 per cent mentioned, but it is blown up a little bit; I have even seen 26 per cent. I have, however, seen advertisements in the press where the interest would indicate that it is 24 per cent per annum, and of course that is to the lender, and it certainly has been well taken care of in recent weeks, and in addition to that all our documents show the per month and per annum rates.

By Mr. Knight:

Q. For information, you say that all your documents show the rates and the cost of the loan per annum?—A. Per month and per annum.

Q. Do your documents show the rate per cent per annum and the cost of the loan?—A. Yes, they do.

Q. And your advertising?—A. It is not in any finer print than anything in the rest of the document. There is an assumption here that I would like to clear up, that people walk into our offices and blindly say "I want \$100 or \$200 or \$500", and that they have absolutely no regard for what it costs them. That just is not the case.

By Mr. Hollingworth:

Q. I suppose when people come in you explain to them what their monthly payment is going to be; you stress that aspect of it rather than the interest; you do not bother about the interest particularly. Their main concern, I presume, is in what their payments are going to be.—A. We have found—and this is general practice—that it is better to have a complete discussion with the borrower about the rate he is paying and what will happen, for instance, if perhaps the loan is prepaid, and how the charge will be computed. I have seen misunderstandings occur, let us say, when at the end of three months the borrower writes in to say that he finds that he can hardly understand the charge. Therefore you have to go into the business of explaining how the charge is based on the unpaid principal balance each month, and why the payment is made, so that, just by way of good business practice, we have found—and this is pretty general throughout the industry—that it is much simpler to have the rates discussed at the very beginning of the transaction. Moreover the rate will appear in two places, on the promisory note and on the chattel mortgage which, generally speaking, accompanies it.

By Mr. Knight:

Q. Mr. Cawker, you have said that your documents say that. You have now just explained what those documents are. I was very pleased to hear you say that you go into it with the prospective customer before, and not three months after, he gets the loan. I am now going to ask you this: if you think there should be given the widest possible publicity to the actual amount of the loan, both for the benefit of the customer and the general public, why is it that loan companies, advertisements do not—and I have never yet seen one of them declare it—the amount in terms of rate percentage per annum of the cost of a loan? That is my first question. The second question is: you said that in certain places you had seen suggestions of 26 per cent. Would you tell me, because I am quite sure you know to a decimal point, what is the actual way of stating a loan of 2 per cent per month in terms of percentage per annum?—A. It is 24 per cent per annum.

Q. Exactly?—A. I believe it is exactly.

Q. I think you had better check that.—A. Possibly—

Mr. K. R. MACGREGOR (*Superintendent of Insurance*): It is 26·8 per cent. Was that your question?

Mr. CAWKER: I was asking your confirmation of my statement that 2 per cent per month is 24 per cent per annum to the borrower.

Mr. MACGREGOR: Loan contracts usually state that the rate is 24 per cent per annum payable monthly. The effective annual rate is 26·8 per cent.

By Mr. Knight:

Q. That is the question I wanted to bring up.—A. Yes. But, I was assuming here that we were discussing the rate, which in all our documents, is predicated upon a percentage per month on the basis of monthly payments. I mean, under the act itself we cannot—it calls for regular monthly payments, equal monthly payments.

Q. I am only interested, Mr. Cawker, in the percentage per annum which the customer has to pay. If, as you have stated, it is in your interest and the public interest that the complete rate should be known, then my question to you is: why not show in the advertisements of the small loans companies the amount of the cost to the borrower stated in those particular terms?—A. I think, possibly, with the committee's permission—the vice-president of the association is with me and I think he is possibly a little more agile in the field of advertising; that is his vocation. With your permission, I would like to have him answer that, Mr. Chairman.

Mr. OAKES: In the first place Mr. Knight, we have no objection to your suggestion. We considered it at the time that the bill was introduced. We have no objection to stating the rate percentage per month, or per annum. But you realize that, in general advertising principles, and advertising copy, you seek to indicate to the possible customer where he can obtain service and the type of service that is obtainable. We try to restrict our advertising, simply for economy of copy, to the basic facts which bring people to our office, at which time we have this discussion which Mr. Cawker mentions. The customer seeking a loan needs to be directed. I am not saying it is the same principle, but possibly the Ford Motor Company does not go into the details of the differential in their advertising. People want to know first about the automobile. They can go into the mechanics of it when they arrive at the showroom. So we have no real objection to that.

Mr. Knight: If you have no objection, might I ask this question: why is it not done? I am not clear on that. Is it to save space in advertising, is that what you said?

Mr. OAKES: To make the principal points known to the potential customer.

Mr. KNIGHT: Mr. Cawker has already stated that a statement of the rate of interest is one of the basic things that ought to be known by the customer before he makes a loan, or before he comes in. I ask this one more question: do you consider that a statement of the amount of interest in terms of percentage per annum, which we have been told by Mr. MacGregor is something over 26 per cent—do you consider that such advertising would be detrimental to the amount of business that you would do in any given period or do you think it would help?

Mr. OAKES: I did not say it would help, I said it would not be detrimental.

Mr. KNIGHT: You say you have no objection to having it appear?

Mr. OAKES: No, sir.

Mr. KNIGHT: Then may we look for it to appear in future advertisements, in some cases?

Mr. OAKES: We will continue to take the advice of our copy people, Mr. Knight, on that subject.

The CHAIRMAN: Mr. Knight, have you ever known of an advertiser emphasizing anything but the good points in their advertising? Have you ever seen the Goodyear Tire Company say at the end of their advertising: "But, of course, this tire will wear out"?

Mr. KNIGHT: Mr. Chairman, you have asked me a question and I am going to answer it. The reason I asked that question was because Mr. Cawker emphasized that he considered it was in the interest of the members of his association that the borrower should be properly informed before the loan was made as to the exact amount that the loan was going to cost—hence my question.

Mr. FAIREY: Mr. Chairman, 2 per cent per month on the unpaid balance surely does not work out at 24 per cent per annum—not on the unpaid balance, if the loan is repaid by equal monthly payments? What does that work out at?

The WITNESS: May I refer that question to the statistical people? I think they would do a much more able job than I would, Mr. Fairey. Would Mr. Heiman, if you please, answer that question?

Mr. FULTON: Who is Mr. Heiman?

The WITNESS: I am sorry. Mr. Heiman is the statistician connected with the Personal Finance Company, one of the members of our association. I am anything but a statistician, and I have asked them to back me up on questions of this kind.

Mr. FULTON: Thank you.

Mr. HEIMAN: This whole concept of rate is not an easy one. We refer to 2 per cent per month, 24 per cent per annum, and 26·2 per cent per annum. I think, boiling it down to its simplest terms, we could take a \$100 loan as an illustration, on which the rate is 2 per cent per month, repaid in twelve monthly instalments. The actual cost to the borrower, if he paid that on the due date in each and every one of the twelve months, is \$13.46—that is the total cost. So what we do, we speak of 24 per cent per annum. We cannot speak of it in terms of the original amount of the loan. The 24 per cent is the effective rate based on the average unpaid balance that this borrower has throughout the life of the contract. It works out somewhere around—at this roughly 53 or 54. That is where you get this 24 per cent, by dividing \$13.46, the total charge, by the average unpaid balance. I think that answers your question.

Now, so far as the actual payment is concerned, he pays only \$13.52. To get to the question of the 26·8 per cent rate, actually 2 per cent per month as the nominal rate would work out at 24 per cent per year; with that, no one can quarrel. I think that when Mr. MacGregor says it is 26·8 per cent he is introducing an element of compounding—in other words what he is assuming is that the lender, immediately upon receipt of the interest, reinvests that full amount of interest in a new loan or part of a new loan. That, I know from our experience has been a thing that was done in the past, but we do not expect it much any more.

When we get into a compounded rate I do not think we can overlook the fact that as a dollar of the interest is received a good part of that dollar goes for expenses such as rent, salaries, advertising, telephones, travel, and so on, and cannot be reinvested in full; only a very small part of it can be reinvested. So, even if you ascribe to the compounding theory it would work out to very much less than 26·8 per cent—it would probably be 24·000 something per cent. It would be very small at best. That, Mr. Chairman—

Mr. FAIREY: Do I understand you to say now that the rate of 24 per cent, or 26 per cent, or whatever it is, is the return to the company, but the borrower actually pays 13·46 per cent ?

Some Hon. MEMBERS: No.

Mr. CAMERON (*Nanaimo*): He pays \$13.46 all together?

Mr. HEIMAN: That is correct.

Mr. KNIGHT: He actually only has the use of the money for six months.

Mr. HEIMAN: He uses an average balance for 12 months of \$53.

Mr. CAMERON (*Nanaimo*): So it is 26·8 per cent?

Mr. HEIMAN: I did not say that. It is 26·8 per cent if you assume—and that is not, of course, what they are going—that they are compounding. A borrower only pays 24 per cent. If you assume full compounding and full reinvestment of each dollar of income every month, the moment it is received then you could say that the lender in effect is getting 26·8 per cent, but the borrower still pays an equivalent of 24 per cent on the unpaid balance.

Mr. CAMERON (*Nanaimo*): If I may take the words you said a few moments ago—you said that this \$100 loan was in fact, as far as the borrower was concerned, at an average of \$50 a month for the 12 months.

Mr. HEIMAN: I said \$52 ou \$53.

Mr. CAMERON (*Nanaimo*): And on that a borrower pays a total of \$13.46?

Mr. HEIMAN: That is right.

Mr. CAMERON (*Nanaimo*): Then I submit that \$13.46 on an average loan of \$50 —

Mr. HEIMAN: Mr. Cameron, may I intervene for one moment to clarify that? I can figure out the average balance for you exactly—a dollar or two will make a tremendous difference one way or the other. If you figure it on the average balance, each and every month; if you divide one into the other, it will be 24 per cent—it cannot be anything but that. The 26·8 per cent rate is only obtained—and I think that is true, Mr. MacGregor—on a compounded arrangement.

Mr. MACGREGOR: I would have to differ from you in some respects.

Mr. CAMERON (*Nanaimo*): I wonder if we might hear Mr. MacGregor's explanation of how he reached the figure of 26·8 per cent?

Mr. FULTON: Did I understand you to say, Mr. Heiman, that a borrower taking out a \$100 loan would pay \$13.46 a month, for 12 months?

Mr. HEIMAN: No, in total. That is the total cost for 12 months.

Mr. FULTON: For a \$50 loan or \$100 loan?

Mr. HEIMAN: For \$100. The cost of a \$50 loan would be just half of that, payable on monthly instalments.

Mr. FULTON: It would cost \$13.46.

Mr. HEIMAN: That is correct, if paid on time.

Mr. REGIER: Mr. Heiman you say, if I understand you rightly, that the difference between your figure of 24 per cent and Mr. MacGregor's figure of 26·8 per cent arises because Mr. MacGregor was assuming that the company's money was available for investment the moment it was received?

Mr. HEIMAN: I presume that is accurate; I have not seen Mr. MacGregor's computation.

Mr. REGIER: We might hear from Mr. MacGregor on that very point. However, you said that it was not available for reinvestment. I have here a statement by at least one company which operates on a paid-up capital of

\$38,000 but which has a bank overdraft of \$249,000 which indicates that not only is their interest dollar immediately made use of but that it is made use of but that it is made use of in advance of receipt.

Mr. HEIMAN: I do not understand—the \$249,000—what was that?

Mr. REGIER: It is the Merchant's Finance, which has a paid-up capital of \$38,100, and they have a bank over-draft of \$249,680.68, which is a sound business proposition.

Mr. HEIMAN: I do not see that that has anything to do with the interest; that is the same as borrowing from the bank to finance the business. I am talking about the dollar of interest received from the borrower, but I say again, it is virtually impossible for the lender to invest that borrower's dollar the moment he receives it; he has his out-of-pocket expenses to pay, as I mentioned before.

Mr. REGIER: All right. Will you agree, Mr. Heiman, that if their net earnings are one third of their receipts that at least one third of the dollar is immediately reinvested?

Mr. HEIMAN: I could not say it would be immediately reinvested. I do not know. It would seem to me he could have to have a borrower at his door every minute to do that.

Mr. CAMERON (*Nanaimo*): Are you suggesting that your company, for instance, has money piling up to any large extent without borrowers being available—that the money is lying idle?

Mr. HEIMAN: No, sir. Business is good, thank goodness, right now.

Mr. CAMERON (*Nanaimo*): Mr. Cawker told us when he was last before the committee that the companies were experiencing great difficulty in finding money to lend to customers.

The WITNESS: American companies?

Mr. FAIREY: We asked Mr. Heiman to illustrate a specific point. I suggest we proceed.

Mr. CAMERON (*Nanaimo*): I think before we do that, in fairness to Mr. MacGregor, who said he differed from Mr. Heiman, he should be given an opportunity to explain the basis on which he arrived at his figures of 26.8 per cent.

The CHAIRMAN: Perhaps you would care to do that, Mr. MacGregor.

Mr. MACGREGOR: Where the lender operates on the basis of a charge of 2 per cent a month the borrower pays over to the lender interest on the outstanding balance of the loan at the rate of 2 per cent per month. The corresponding nominal rate per year is of course 12 times that or 24 per cent per year. But from the borrower's point of view he pays his 2 per cent per month every month. It is true the lender may not reinvest it but that is not the borrower's fault; the borrower pays his 2 per cent on the outstanding balance regularly each month, and if the lender does reinvest it immediately, the effective annual rate is 26.8 per cent. That is about all there is to the story.

Mr. FULTON: Is the difference this, Mr. MacGregor, that one rate is arrived at by calculating the return on the money to the lender, and the other is arrived at by calculating the cost of the money to the borrower?

Mr. MACGREGOR: Yes, in a sense, but from the borrower's point of view if he pays it every month the monies are beyond his grasp; then it is up to the lender to reinvest promptly if he can.

Mr. FULTON: Quite. I want to be fair to both points of view. I do not want to "load" my question—please elaborate on it if I am "loading" it—but what I want to know is exactly what does it cost the borrower?

Mr. MACGREGOR: It costs the borrower 2 per cent per month, and since he pays his interest monthly on the outstanding balance the effective annual rate corresponding to a monthly charge of 2 per cent is 26·8 per cent.

Mr. FULTON: Am I correct in interpreting your answer as being that it costs the borrower 26·8 per cent per annum?

Mr. MACGREGOR: At that rate, taking into account the interest he pays and the times at which he pays it over,—which is monthly on the outstanding balance.

Mr. CAMERON (*Nanaimo*): And that is so regardless of whether the loan company collects the money or not?

Mr. MACGREGOR: That is quite right.

Mr. MONTEITH: It is true, then, that these companies have not been living up to the sections of the act under which it is required that only 2 per cent per month be charged?

Mr. MACGREGOR: They have lived up to those requirements. Most of them have operated on the basis of a maximum monthly rate of 2 per cent.

Mr. MONTEITH: And you intimate that a rate of 2 per cent per month on a reducing balance does work out to a rate of 26 point something per cent?

Mr. MACGREGOR: That is the corresponding effective annual rate. The monthly instalments a borrower pays are determined on the basis of a monthly rate of 2 per cent.

Mr. REGIER: Is it correct, Mr. MacGregor, to assume that if the borrower made monthly payments and was credited on the principal with the full amount of each monthly payment, and then at the end, when he no longer owed anything, if he just asked how much his interest would be for that money on a monthly basis he would then be paying 24 per cent?

Mr. MACGREGOR: Well, the loans are not actually administered on that basis. The monthly installment is credited first to interest and only the remainder of the monthly installment is then credited against the outstanding balance.

Mr. REGIER: It is the fact that he is actually prepaying interest before the expiry date of the principal of the loan that accounts for the 2·8 per cent?

Mr. MACGREGOR: He does not actually prepay it. He pays interest every month as it accrues. That is the first credit made from his installment.

By Mr. Fulton:

Q. Can somebody reproduce this in the form of a simple chart?—A. I think possibly that might be well here because reference to the gross charges collected by the industry to the average outstanding balance will show that the companies collect about 23 per cent. Now, theories are one thing; facts are another. I am not a theorist and I am not a statistician, but I can reduce gross income to average outstandings and very simply find that the industry realizes 23 per cent. That is the general over-all picture.

Q. Is that taking into account losses and uncollectables? What I would like is for somebody to put in the form of a simple graph something which would show the difference between the 26·8 per cent and the 24 per cent per annum.

By Mr. White (Hastings-Frontenac):

Q. When you mentioned 2 per cent, is that all the borrower pays, or are there any other charges or services for which he pays?—A. No. That is covered quite specifically in the act. That is an all-inclusive charge.

Q. Does he pay for registering the chattel mortgage?—A. No, sir, he does not.

By Mr. Henderson:

Q. Do you furnish him with a discharge to the chattel mortgage at no expense to him?—A. If it is requested, yes, and if it is registered.

The CHAIRMAN: Are there any further questions on this part?

By Mr. Fleming:

Q. You say "if it is registered". Are you referring to the chattel mortgage or to the discharge?—A. The chattel mortgage. It is a matter of company policy. In all cases they do not register. There are different situations in which company policy dictates that they will register; it varies through the companies.

Q. They will furnish to the borrower a discharge of his chattel mortgage on request without a charge to him?—A. Yes, sir.

By Mr. Henderson:

Q. Would it be a good piece of public relations and a good piece of business to send them a discharge of a chattel mortgage without them having to ask for it? It causes a good deal of trouble when a person is looking into the titles of personal property.—A. Mr. Henderson, I will not speak for the one American company where I received my early training as of this moment, but at this time when I was employed by them it was a practice. It is a policy which I have maintained, and I know that quite a few of at least the Canadian companies do follow that practice, because it gives us an opportunity to express to the borrower our appreciation of the way in which he has handled his account. It is just good business to return the chattel mortgage and to express our appreciation for a piece of business well conducted.

Q. I think, looking at it from the point of view of the borrower, and also those who look after his affairs, that it might be a good practice if all Canadian companies would follow that practice, because, generally, when you ask to have them turned up I would say that that company spends more money doing that, and wastes time. At the same time, when the borrower receives it, it certainly makes him feel better, I am sure. I would certainly recommend that policy to all companies.—A. Yes. In the by-laws of our association we encourage that. We do not feel that it is something which we can dictate to the membership; but, in the code of ethics as I read them, I think you will recall that there was a reference to the return of documents to the borrower. As I say, it was a practice, I know, at one time with the Household Finance Corporation, as it is with a great many of the operating companies today. I think it is an excellent suggestion. Mr. Oakes tells me that it still is a practice with the Household Finance Corporation.

By Mr. White (Hastings-Frontenac):

Q. If a loan for a period of twelve months is paid off at the end of three, four, five or six months, what happens then as far as the interest is concerned? Does he have to pay some bonus?—A. No. He pays interest only up to the day the loan is paid off. That is also specifically covered in the 1939 act and in Bill 51.

Q. So that in no event would he pay more than the 23 per cent according to your figure?—A. Yes.

By Mr. Henderson:

Q. If I should be late a few days in my payments, do you adjust the interest up to that date?—A. Yes. Similarly, if you paid if three days ahead of time you would be credited with that.

By Mr. Fleming:

Q. On what basis do you adjust in the case of a payment three days late?—

A. Well, the general policy in the industry is to use a calculator based on days and principal balance.

Q. Is it straight per diem prorating of the 2 per cent per month?—A. That is right. There are minor variations there covering, for instance, the month of February where the Department of Insurance have given up some guidance, and I think it is an excellent approach to the problem. There are some minor variations, but generally speaking it is per diem.

By Mr. Follwell:

Q. Mr. Chairman, may I ask one or two questions. On page 2, Mr. Cawker, in your brief in the third line you say:

...enquire into the practices of individuals, partnerships and companies making loans on personal security...

What exactly do you mean by personal security?—A. The security we

refer to there is the individual's character, stability and ability to repay, rather than tangible or, let us say, readily saleable security. In other words, while the security most frequently used, let us say, is, possibly, furniture, the record shows I think in the accounts of the department published annually that really the security boils down to the personal security, the intent and the ability.

Q. Are you indicating to the committee that you do make loans on a personal signature of guarantee to pay, or do you always require furniture?—A. Not always.

Q. Or television sets, automobiles, boats or anything?—A. No. There is quite a reasonable number of loans made on simply single signature with no tangible security of any kind. There is a much lesser number made, of course, on an endorsement basis.

Q. They would be made pretty much on the basis of the character of the borrower, probably after investigation, and ability to repay?—A. That is right.

Q. There is one thing bothering me which appears in your brief under the third item on page 2. You mention:

Chartered banks and credit unions do not meet the need to the extent that it exists.

Why do people borrow from these small loans companies when they can borrow at what is probably lower cost from the banks and, particularly, the credit unions?—A. Of course, the credit unions, first of all, loan only to their members. In the case of the chartered banks I think it boils down to two specific points: the first point is that the charge which they are permitted to make for a personal loan, payable in instalments, is possibly not adequate. Secondly, I cannot speak as to the banks policy. People come to us because they cannot borrow, first, from the credit union, possibly because they do not belong to one, and, secondly, possibly because they cannot borrow from the bank.

Q. So you are indicating that if they have no other place from which to borrow they come to the small loans company?—A. That is right.

The CHAIRMAN: Are there any further questions on this section, gentlemen?

The WITNESS: There is one point, Mr. Chairman, since we have written the brief. I refer to the last paragraph, having reference to the states of New Jersey, Virginia and West Virginia. I would ask the committee to refer exactly what happened in those states while various experiments with rates were being carried on.

By Mr. Cameron (Nanaimo):

Q. I am just wondering if that is the evidence we are asking for. We had evidence given by Mr. MacGregor who, may I suggest with all respect, had a better opportunity to secure information from the United States than any private corporation would have. He is in touch with the departmental by opposite authorities in the United States; and it does seem to me that I thought that Mr. Cawker was going to read his brief without being interrupted.

The CHAIRMAN: I think that if there is something in the brief which Mr. Cawker feels should be extended, he should have the same privilege that Mr. MacGregor had. I do not see why he should be penalized if it is something relevant to our enquiry as to rates. Your suggestion is as to what happened in those three states?

The WITNESS: That is right.

The CHAIRMAN: Then I see no objection to it. I personally would be interested to hear what did happen.

The WITNESS: I will go through this very quickly. Dealing first with the state of New Jersey:

The rate was reduced February 15, 1930 from 3 per cent to $1\frac{1}{2}$ per cent per month on balances. Outstandings dropped from \$20 million to \$5.4 million by November 30, 1931. This reduction would have been even more severe had no large legal lender continued to make loans at $1\frac{1}{2}$ per cent as an experiment at the request of state authorities. The need continued beyond this company's capacity to meet it and many borrowers resorted to illegal lenders. Affidavits from borrowers showed they were being charged up to 4000 per cent per year. Rate increased to $2\frac{1}{2}$ per cent in 1932 which is the present maximum and illegal lending disappeared.

In the case of West Virginia, in 1925 the rate was $3\frac{1}{2}$ per cent to \$300 ceiling. In 1929 the rate was reduced to 2 per cent per month. By January 1930, 23 illegal lenders were operating in the state, and the licensees had been reduced from 52 to 36, and in 1933 there were only 23 licensees.

In 1933 the rate was $3\frac{1}{2}$ per cent on the first \$150 and $2\frac{1}{2}$ per cent to \$300 with no maximum maturity.

During low rate period J. B. Easton, President of West Virginia Federation of Labour, wrote to state legislature as follows: You have not alone made it impossible for a man to borrow at $3\frac{1}{2}$ per cent, but you have gone further. You have prevented him from borrowing at all, except through the 20 per cent per month loan shark".

There is a letter here dated March 12, 1931 to the House of Delegates, Charleston, West Virginia from the Joint Legislative Board, West Virginia State Federation of Labour, Brotherhood of Locomotive Engineers, Brotherhood of Locomotive Firemen and Enginemen, Order of Railway Conductors of America, as follows:

We have found from investigation of numerous complaints that the labouring people of West Virginia are being robbed at the hands of the loan sharks.

The Legislature of 1929 reduced the legal rate on small loans to 2 per cent. You now have before you Senate Bill No. 127 which increases the rate back to $3\frac{1}{2}$ per cent. This bill labour whole-heartedly supports.

Our reasons:

1. Prior to 1925 the state was infested with loan sharks.
2. By the enactment of the small loan law of 1925, providing for the $3\frac{1}{2}$ per cent rate these sharks were practically eliminated.
3. After the reduction in rate in 1929 practically all legitimate companies ceased to operate. Not in any instance have we found a company granting loans for less than \$150.00 at the 2 per cent rate.
4. The loan shark companies have sprung up like mushrooms, the borrower unable to get money from legitimate companies was forced to borrow from these highrate companies.
5. In questioning these borrowers we find that the prevailing rate of interest is 240 per cent and in some instances as high as 600 per cent.
6. We know that the borrower when forced to borrow is not going to prosecute the lender for fear of losing his job.
7. We believe that $3\frac{1}{2}$ per cent per month will attract legitimate capital into the business to provide this small loan service.

"We therefore, ask you to see that no amendments are made to Senate Bill No. 127 in the interest of labour.

(Signed) John B. Easton G. F. Todd
C. L. Jarrett F. Higinbotham"

In the state of Virginia in 1918 Virginia passed a small loans law with rates as follows:

5 per cent per month to \$50.00, $3\frac{1}{2}$ per cent per month to \$300.

In 1922 the above law was amended and rate changed to $3\frac{1}{2}$ per cent per month to \$300.

On June 27th, 1942, the law was again amended and rate was reduced to 2 per cent per month to \$300.

During 1942 number of licensees dropped from 103 to 66 and loans made dropped from 148,000 in 1941 to 108,000 in 1942.

During 1943 ten more licensees went out of business and loans made dropped to 97,000. By 1944 number of licensees in business stood at 58 and loans made totalled 95,000.

On January 1st, 1947 the law was changed again and the rate set at $2\frac{1}{2}$ per cent per month to \$300.

Effective February 20, 1956, Virginia again amended the small loans law by increasing the maximum size of loans from \$300 to \$600 and authorized $2\frac{1}{2}$ per cent per month on the first \$300 and $1\frac{1}{2}$ per cent per month on balances exceeding \$300 up to \$600.

The state of Missouri in 1913 passed an act limited in application to cities with population of 30,000 or more with the rate set at 2 per cent per month plus fee of \$1.50 on loans of \$300 or less.

In 1927 an act was passed setting the rate at $3\frac{1}{2}$ per cent per month.

In 1929 amendment to the 1927 act reduced the rate to $2\frac{1}{2}$ per cent per month.

In 1939 an amendment was made to set rate of 3 per cent per month up to \$100 and $2\frac{1}{2}$ per cent per month on entire amount of loan above \$100 to \$300. (Step rate).

In 1946 section 44 of article III of the Missouri constitution of 1945 became effective July 1, 1946 and on the advice of the Attorney General, the Commissioner of Finance refused to renew small loans licences all of which expired June 30, 1946. With no small loans law rate reverted to general interest law at 8 per cent per annum.

In 1951 Senate bills 78 and 79 drafted to overcome the constitutional problem became law. Rates set 2.218 per cent per month on balances up to \$400 and general interest law at 8 per cent per annum above. On loans made for amounts higher than \$400 both rates must be computed separately on separately unpaid balances of each portion of loan with both portions repaid simultaneously. Charge may be simple interest on unpaid balances or pre-computed subject to rebate under rule of 78ths.

The CHAIRMAN: It is now 10 o'clock, gentlemen, and the committee stands adjourned.

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Canada Banking and Commerce
Standing Cttee on 1956
HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

BILL 51

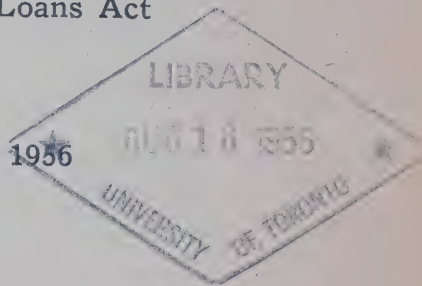
An Act to amend the Small Loans Act

THURSDAY, JULY 26, 1956

WITNESS:

Mr. C. M. Cawker, President, Canadian Consumer Loan Association

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.



STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. Hunter, Esq.,

and Messrs.

Ashbourne	Hamilton (York West)	Rea
Balcom	Hanna	Regier
Batten	Henderson	Robichaud
Bell	Hollingworth	Rouleau
Benidickson	Holowach	St. Laurent
Blackmore	Huffman	(Temiscouata)
Cameron (Nanaimo)	Knight	Stewart (Winnipeg
Carrick	Low	North)
Crestohl	MacEachen	Thatcher
Deslieries	Macnaughton	Tucker
Enfield	Matheson	Viau
Eudes	Meunier	Vincent
Fairey	Michener	Weaver
Fleming	Monteith	White (Hastings-
Follwell	Nickle	Frontenac)
Fulton	Pallett	White (Waterloo South)
Gingues	Philpott	
Gour (Russell)	Power (Quebec South)	

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 26, 1956

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieries, Enfield, Fleming, Follwell, Fulton, Hanna, Henderson, Holowach, Huffman, Hunter, Low, Macnaughton, Matheson, Monteith, Philpott, Rea, Regier, Robichaud, St. Laurent (*Temiscouata*), Thatcher, Viau, Weaver and White (*Hastings-Frontenac*).

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. Cawker was again called; he continued the presentation of the brief of Canadian Consumer Loan Association and was questioned thereon.

In response to questions asked at the previous sitting, in the course of his evidence Mr. Cawker read a letter to himself from Messrs. Deloitte, Plender, Haskins and Sells, Chartered Accountants, of Toronto, dated July 25, 1956, regarding the computation of the permissible interest rate under the Small Loans Act; and Mr. MacGregor tabled a memorandum on the same subject, which the Chairman read into the record.

During Mr. Cawker's evidence, Mr. MacGregor answered questions specifically directed to him.

Mr. Cawker being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieries, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Henderson, Holowach, Huffman, Hunter, Macnaughton, Matheson, Monteith, Rea, St. Laurent (*Temiscouata*), Thatcher, Weaver and White (*Hastings-Frontenac*).

In attendance: The same as at the afternoon sitting.

Following debate, Mr. Fleming moved, seconded by Mr. Monteith,

That the Committee sit more frequently, twice on Mondays, twice on Tuesdays, once on Wednesdays, twice on Thursdays and once on Fridays, a total of eight sittings per week, with a view to completing consideration of Bill 51 during this session.

Following further debate, Mr. Benidickson moved a superseding motion, seconded by Mr. St. Laurent (*Temiscouata*), namely,

That the matter of frequency of sittings of the Committee be referred to the Subcommittee on Agenda and Procedure for their consideration and recommendation, later this day.

The motion of Mr. Benidickson was resolved in the affirmative on the following division:

Yeas: Messrs. Balcom, Batten, Benidickson, Crestohl, Deslieries, Fairey, Follwell, Gour (*Russell*), Henderson, Huffman, Macnaughton, Matheson, St. Laurent (*Temiscouata*) and Thatcher—14.

Nays: Messrs. Bell, Cameron (*Nanaimo*), Fleming, Fulton, Holowach, Monteith, Rea and White (*Hastings-Frontenac*)—8.

The motion of Mr. Fleming was thereby superseded.

Mr. Cawker was again called; he continued the presentation of the brief of Canadian Consumer Loan Association and was questioned thereon. Mr. McClure answered questions specifically directed to him.

Mr. Cawker being still before the Committee, at 10.00 o'clock p.m. it adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 26, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. I think we are at the third section "operation of the act" on page 3 of the Canadian Consumer Loan Association.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

The WITNESS: Mr. Chairman, and hon. members, near the conclusion of Tuesday night's evidence there was a question brought up as to the actual difference in the rate charged under the existing act and that of a rate based upon some assumption upon which I was not particularly clear, but the thing seemed to me to be of sufficient importance, and it was further brought out, I believe, by Mr. Fulton, that it might be well to have a very simple chart that a layman might understand demonstrating exactly what the charges per month and per annum on a loan under the existing act would amount to.

Therefore with your permission I would like to read this short letter of which I have had some copies made. The letter is from the firm of Deloitte, Plender, Haskins and Sells whom I have had prepare a sample loan together with their comments. While the distribution is taking place I would ask if I might simply read this short note attached to the chart. It reads as follows:

DELOITTE, PLENDER, HASKINS & SELLS

Chartered Accountants

38 King Street West,
Toronto, Ontario.
July 25th, 1956.

Mr. C. M. Cawker, President,
Canadian Consumer Loan Association.

Dear Sir:

As you requested, we attach our computation of the interest and principal repayments made by a borrower who secures a cash loan of \$100 under the terms of the present Small Loans Act, namely, that the charge for the loan will be calculated at 2 per cent per month on the amount actually advanced to the borrower and the monthly balances thereof from time to time outstanding, and that the loan and charges will be repaid in twelve monthly instalments.

As you will see from schedule I attached, the borrower receives \$100 in cash and makes twelve approximately equal monthly payments of blended principal and interest (eleven of \$9.46 each and the twelfth of \$9.40), thus repaying the loan and charges in full.

The borrower thus had the use of \$100 for one month, \$92.54 for one month and so on or, on the average, \$56.11 for the twelve month period. For the use of this \$56.11 for one year, the borrower has paid

a total of \$13.46. Thus the rate of charge on the borrowed funds actually paid by the borrower amounts to 24 per cent per annum.

However, if the terms of the loan provided for a charge of 2 per cent per month compounded monthly (which, of course, would be illegal under the Small Loans Act) and no payment during the year (which would also be contrary to the present Act), at the end of twelve months he would have to pay \$126.82 to settle the total amount owing. Thus, on this basis (which ignores two important provisions of the Small Loans Act) it could be said that a borrower would pay \$26.82 for the use of \$100 for one year or a rate of 26.82 per cent per annum (See schedule II).

It must be recognized that, from the point of view of a borrower under the Small Loans Act, this is purely academic because this compounding of interest is expressly prohibited by the act. It occurs only when the law permits the charging of interest on interest (as well as on principal).

A person securing a loan, which falls within the provisions of the Small Loans Act, would not pay a charge exceeding 24 per cent per annum. This would be so even though he did not make his monthly payments as agreed because:

- (1) the act limits the maximum rate of charge to 2 per cent per month "on the amount actually advanced to the borrower and monthly balances thereof from time to time outstanding",
- (2) "every loan shall be repayable in approximately equal instalments of principal or principal and cost of the loan at intervals of not more than one month each", and
- (3) "the cost of the loan or any part thereof or any interest accruing after default shall not be compounded or deducted or received in advance".

It is therefore clear that if a borrower under the Small Loans Act were required by a lender to pay at a rate greater than 24 per cent per annum calculated on the outstanding balances of the funds, the use of which the borrower actually enjoyed, the lender would have violated the provisions of the Small Loans Act.

Yours truly,

DELOITTE, PLENDER, HASKINS & SELLS.

SCHEDULE I

Interest and Principal Repayments of a Loan of \$100 bearing a Rate of 2 per cent per month and Repayable in Twelve Monthly Instalments

	Monthly Payment	Interest Portion of Payment	Principal Portion of Payment	Principal Outstanding
Amount of Loan				\$100.00
First Month	\$9.46	\$2.00	\$7.46	\$92.54
Second Month	9.46	1.85	7.61	84.93
Third Month	9.46	1.70	7.76	77.17
Fourth Month	9.46	1.54	7.92	69.25
Fifth Month	9.46	1.39	8.07	61.18
Sixth Month	9.46	1.22	8.24	52.94
Seventh Month	9.46	1.06	8.40	44.54
Eighth Month	9.46	.89	8.57	35.97
Ninth Month	9.46	.72	8.74	27.23
Tenth Month	9.46	.54	8.92	18.31
Eleventh Month	9.46	.37	9.09	9.22
Twelfth Month	9.46	.18	9.22	—
Totals	<u>\$113.46</u>	<u>\$13.46</u>	<u>\$100.00</u>	<u>\$673.28</u>

Average principal outstanding during the year $= \$673.28 \div 12 = \56.11

Charge paid for use of \$56.11 for one year $\$13.46$

Therefore Charge paid for use of funds $= \frac{\$13.46}{\$56.11} \times 100 = 24$ per cent
per annum

NOTE: Calculations have been carried to nearest figure in each case.

Each of the twelve months has been regarded as one-twelfth of a year.

SCHEDULE II

Interest and Principal Repayment of a Loan of \$100.00 Bearing a Charge of 2 per cent per month Compounded Monthly Repayable at the End of Twelve Months

	Monthly Charge	Balance of Principal and Interest
Amount of Loan		\$100.00
First Month	\$ 2.00	102.00
Second Month	2.04	104.04
Third Month	2.08	106.12
Fourth Month	2.12	108.24
Fifth Month	2.16	110.40
Sixth Month	2.21	112.61
Seventh Month	2.25	114.86
Eighth Month	2.30	117.16
Ninth Month	2.34	119.50
Tenth Month	2.39	121.89
Eleventh Month	2.44	124.33
Twelfth Month	2.49	126.82

Total of Monthly Charges \$26.82

Average principal outstanding during the year = \$100.00

Charge for the use of \$100.00 for one year = \$ 26.82

Therefore Charge for use of funds = $\frac{\$26.82}{\$100.00} \times 100 = 26.82$ per cent
per annum

NOTE: Such a transaction as is illustrated above would be in violation of the Small Loans Act.

Calculations have been carried to nearest figure in each case.

Schedule I is simply a \$100 loan repayable monthly, assuming that it is paid on the due date each month. The average principal balance outstanding during the year is \$673.28, divided by twelve or 56.11; and the charge paid for the use of \$56.11 for the one year is \$13.46. Therefore the charge paid for the use of the funds, by a simple calculation, is 24 per cent per annum.

Schedule II portrays the compounding which the firm mentioned in its statement, and I think that it is quite self explanatory in bringing out a charge of \$26.82 or a percentage per annum of 26.82 per cent. Of course that would be illegal under the Small Loans Act under which we operate now.

The CHAIRMAN: Mr. MacGregor, did you make any computation on this?

Mr. K. R. MACGREGOR (*Superintendent of Insurance*): Mr. Chairman, in view of Mr. Fulton's question at the end of the last sitting I prepared a brief note on the point which I had not intended to table, but which I simply had in mind handing to Mr. Fulton. However, in view of the submission that has just been made I would like, with your permission, to table this memorandum which is quite brief.

Mr. CAMERON (*Nanaimo*): Could we have it read?

Mr. CRESTOHL: Mr. Chairman, if what Mr. MacGregor has just tabled is connected with the Deloitte-Plender statement which was just read, would it be possible for Mr. MacGregor's statement to be read now, because we have not got copies and we might thereby follow the sequence.

The CHAIRMAN: Do you wish to have it read now?

Agreed.

It says:

Explanation of the difference between an effective rate of interest of 24 per cent per annum and a nominal rate of 24 per cent per annum payable monthly.

Interest rates are usually expressed as a rate per cent per annum on the assumption that the interest is paid at the *end* of the year on the principal outstanding during the year.

As an example, assume that a loan of \$100 is outstanding throughout the year.

Case 1. If the stipulated rate of interest is 24 per cent per annum, then the interest payable at the *end* of the year will be \$24. In this case, the effective rate is 24 per cent per annum.

Case 2. If, however, the stipulated rate is 24 per cent per annum payable monthly, which means 2 per cent per month, then the interest is payable at monthly intervals during the year and not at the end of the year. In this case, the borrower pays interest earlier and has not the use of these interest payments during the year; instead, the lender has the use of such payments. Obviously, it makes a difference who has possession of such payments during the year and it is this difference that results in different effective annual rates. By the lender's own terms, the use of any moneys carries a charge of 2 per cent per month. Therefore, in order to compare the two cases, the monthly interest payments that the borrower makes throughout the year in the second case should be accumulated at 2 per cent per month to the end of the year in order to ascertain their equivalent value at the end of the year, as follows:

End of month	Interest payment	Interest payment accumulated at 2 per cent per month to end of year
	\$	\$
1	2.00	2.487
2	2.00	2.438
3	2.00	2.390
4	2.00	2.343
5	2.00	2.297
6	2.00	2.253
7	2.00	2.208
8	2.00	2.165
9	2.00	2.122
10	2.00	2.081
11	2.00	2.040
12	2.00	2.000
Total		26.824

In case 1, where interest is all paid at the end of the year, the effective annual rate is 24 per cent, but in Case 2, where interest is paid at the rate of 2 per cent monthly throughout the year, the effective annual rate is 26·8 per cent.

Mr. FOLLWELL: From what you have just read, I am wondering—that is predicated on the fact that the borrower, if he did not pay the interest monthly, would have the use of the dollars that he would pay in interest until the end of the year, and I would think, Mr. MacGregor, in that case, the effective rate would still be only 24 per cent for the borrower. Is that right?

Mr. MACGREGOR: I think rather than prolong the discussion I would rather say that this is simply a discussion of a technical point and one cannot get away from the basic fact that the nominal rate of interest expressed as a percentage per annum payable at intervals more frequently than annually is not the same as a flat rate per annum. One could carry on the discussion endlessly, and assume all sorts of different circumstances, but the two rates are fundamentally different.

Mr. FOLLWELL: I just wanted to have that in the record.

The WITNESS: Might I ask for the record, Mr. Chairman, if we are to assume that the banks—on the very rare occasions when I have any money in the banks, I find that they debit their interest monthly, rather in the usual case when I have an overdraft—are we to assume then that the banks with a stated rate of 6 per cent per annum will not charge something more, as in the case of the Bank of Commerce we heard objection when 10·46 was mentioned; was it in fact something greater than that? Is that the conclusion we should draw?

The CHAIRMAN: I do not know, Mr. Cawker, and I must say, with all respect, that you are here to give evidence and not to ask questions.

Mr. MACGREGOR: May I say that included in the bill is a provision to substitute a new maximum permissible rate for unlicensed lenders; the rate at the present time is 12 per cent per annum, which means that an unlicensed lender may not charge more than ·95 of one per cent per month.

The proposal in the bill is to make this 12 per cent per annum payable monthly which means one per cent per month. But there is a difference between one per cent per month and ·95 of one per cent per month and the provision in the bill is designed to remove the practical difficulty caused by this difference. I do not think that anyone would contend that the two rates in that instance mean the same thing. The difference will show up quite clearly, I am sure, when we come to discuss this provision in the bill.

Mr. BATTEN: As a new member of this committee I suppose I should not say anything.

The CHAIRMAN: Not at all.

Mr. BATTEN: I think this whole argument is based upon a simple mathematical fallacy. I find that sometimes it appears that if you borrow \$100 at the beginning of the year and you take off the normal amount for each interest, let us say, from January through to December, you find you have effectively borrowed \$50 for the whole year which of course is not true.

If you take \$100, and you are going to pay back equivalent amounts for each of the 12 months, then for each month you will be taking off \$8.33. Which means that in the month of January you owe \$100 and in the month of December, after taking successive amounts of \$8.33 you still owe \$8.33. The average then owing would be the 12 months that you owed for each month added up and divided by 12, or simply arrived at by taking the amount in the first month, which is \$100, plus the amount in the last month, which is \$8.33, and dividing by two, which gives you the effective amount owing over the whole year of, not \$50 but \$54.16.

Now, if you take 24 per cent of \$54.16 you have \$13. But under this scheme, as has been explained, you are paying decreasing amounts each month. If the amounts are calculated so that you are going to pay the same amount each month, then the effective rate is increased by a little bit more, mounting actually to .36 per cent, making a total of 13.46 per cent for half a year for the effective rate of 26.8 per cent for the whole year. I agree with the mathematics that have been explained, Mr. Chairman.

Mr. PHILPOTT: You should all be satisfied. We have got our own expert!

The WITNESS: Operation of the Act—When the Small Loans Act was passed in 1939 its principal objectives were to protect borrowers from exorbitant rates; and to provide for the operation of a licensed and regulated source of consumer loans for moderate income families. The record shows that within the limits set by the act these objectives have been achieved.

Today, after 16 years of operation, the act needs only comparatively minor revision, and this is not due to any defect in its original provisions but to changes which have accompanied the economic growth enjoyed in this country during the last ten years.

Complaints under the act have been rare. This is noteworthy when it is remembered that licensed lenders deal with hundreds of thousands of Canadian families each year.

If I might just add one comment here. I am not going to labour the question of complaints. We have heard from Mr. MacGregor on the subject. But, early in the year we did feel some concern as to whether the records of the association were adequate to determine whether in fact we had been reasonably complaint free, also whether the individual companies were reporting the situation accurately and completely. I asked the Toronto Better Business Bureau what their experience had been, since I felt it better to get away from specific isolated cases, and have the general picture as far as the operations of the companies during the life of the act. On March 19 they wrote me, in care of the secretary of the association, in Toronto:

March 19, 1956.

W. J. Cannon, Esq., Secretary
Canadian Consumer Loan Association,
55 York St.,
Toronto, Ontario.

Dear Mr. Cannon: *Re: Small Loans Act (1939)*

You may remember that some years ago I wrote you regarding the above act.

Prior to the passing of this act we were inundated with complaints in connection with the activities of loan sharks. As a consequence we organized and operated an anti-usury department, following which we received thousands of complaints from the public who had paid exorbitant rates of interest on small loans.

Following the passing of this act complaints of this nature practically ceased and the few we have received, have been from individuals who did not understand what the charges they paid covered.

I am of the opinion that this is one of the finest pieces of legislation that has ever been passed by the government at Ottawa to cope with unfair and unethical practices. It has meant the saving of many hundreds of thousands of dollars to the Canadian public.

Regarding Bill 51 (an Act to amend the Small Loans Act) copy of which was forwarded to me recently, I note that the proposed rates are set on a decreasing scale as the size of the loan increases. While I

believe this is all right in principle; however, if the rates are set too low, many of the legitimate lenders will be unwilling to make loans in those sizes and, therefore, a certain amount of the protective value of the act will be destroyed. If the Canadian public cannot borrow sums of money from legitimate lenders they will have no other recourse but to do business with those who may charge an exorbitant rate of interest.

With kindest regards,

Yours very truly,

And it is signed "A. R. Haskell, general manager"—of the Toronto Better Business Bureau Incorporated.

In addition to our own practical knowledge of the operation of the act through personal contact with these families, the point of view of those responsible for its administration is illustrated by the following statement (*Hansard*, May 27th, 1955, page 4189) by Mr. W. M. Benidickson, Parliamentary Assistant to the Minister of Finance:

Hon. members are probably aware that the Small Loans Act is administered by the Department of Insurance which reports to the Minister of Finance. This department has a very strict policy, not only for licensing but for scrutinizing the charges of these companies and the annual statements that they present. I think it is fair to those in charge of this administration to say that they have probably been carrying out the supervision in this field in a cleaner and better way than probably any other country of which we know.

The successful operation of this legislation has been materially assisted by the desire of licensed lenders to see the act achieve its purpose. Members of the Canadian Consumer Loan Association are constantly on the alert to report to the department any violations of the act or instances of anti-social lending practices in their communities.

I regret, gentlemen, that in reading I neglected to end the quotation on the page before you, but I believe it was quite obvious, where Mr. Benidickson said—"better way than probably any other country of which we know."

The CHAIRMAN: Gentlemen, that finishes that particular section. Are there any questions on that section?

Mr. HENDERSON: Mr. Chairman, there were two statements that Mr. Cawker made. The first being: "when the Small Loans Act was passed in 1939 its principal objectives were to protect borrowers from exorbitant rates; and to provide for the operation of a licensed and regulated source of consumer loans for moderate income families." In the last paragraph he says, "The successful operation of this legislation has been materially assisted by the desire of licensed lenders to see the act achieve its purpose."

I am one of those who believe that we should see you fellows more often. I believe you should come back the same as the banks do to have their charters renewed, so that you can iron out your own ideas and make any comments on your operation that you wish. I have noted, as before, that you do have a great slice of the national economy of this country. I would like to know what comments you would have or what objections, if any, if you appeared before this committee more often for, if not an annual renewal of your licence, then for a review every five or ten years. I just put that proposition to you, and I would like to hear what you have to say about it.

The WITNESS: I hope you put the question to the industry, and not to me personally. I have had a very kind reception here but, in principle I think we have said that we welcome a public examination of our industry. Supervision of the small loan field is absolutely essential and, of course, I think supervision and cooperation with supervision is a two-way street. I think a review of the operations of this industry is quite reasonable.

Members, I am sure, have already been made well aware of the outstanding contribution of the Russell Sage foundation and its full analysis of the small loans problem over the years. I think the most impressive thing, probably, about the Russell Sage foundation is their very realistic approach. Of course, they have spent many years in developing the approach and developing their conclusions. They spent a lot of time, of course, trying to develop philanthropic capital to extend the operations of credit unions. I think we would be fair to say that they accepted human desires and needs as they saw them. The result, really, was, I think the first realistic answer to the problem of this type of money lending, in the history of mankind and a model uniform loan act that stood the test of time.

Now, there is an organization which has been financed and they have given this matter a terrific amount of study. So, I suppose it would be quite reasonable to assume that more study of the situation in Canada probably would lead to a better situation for both lender and borrower. I would not like to express an opinion as to how often they should be seen. That is for the committee, I would presume, to decide, but I think in principle it is a good idea.

By Mr. Holowach:

Q. You mentioned in your brief, Mr. Cawker, at the bottom of page three, that in your opinion the act needs only comparatively minor revision. Would you care to elaborate on that and tell us what you had in mind?—A. Yes. We cover that matter, Mr. Chairman, in a later section of the brief, if you would care to let me handle it then, I will attempt to answer the question.

Q. It is just that you spoke in this section in a rather affirmative way, that only minor changes, or minor revisions are needed. Now, what revision did you have in mind as an association?

The CHAIRMAN: That is covered later in the brief where they make their recommendations. Would you care to defer your question until that point is reached?

By Mr. Follwell:

Q. Mr. Chairman, on page 3 in the first paragraph of the section are these words:

The record shows that within the limits set by the act these objectives have been achieved.

Now, Mr. Cawker, could you tell the committee to what extent did the passage of the Small Loans Act improve conditions in the small loans field? Is that what you mean by that clause?—A. Yes, I think so. For instance, in 1940 when this act came into effect if my memory serves me correctly, 40 loan "sharks" were known to have closed their doors in the city of Toronto alone. I would assume that probably a ratio reasonably close to that would have resulted in the various other cities across Canada. Actually I think the act has encouraged competition and that has certainly made for better competitive practices; and I think good competitive practices and strong competition in the business has certainly resulted in a definite advantage to the borrower.

Q. Mr. Cawker, we have heard the term "loan shark" used, now, probably for the first time. I am not sure what to understand by it. You as a witness have used that term, but I really do not know what a "loan shark" is and I do not know if any other member of the committee knows. Have you any opinion as to what a "loan shark" might be?—A. I have never tried to analyze the phrase and create a definition of "loan shark" but falling back on experience we have seen cases of a borrower exposed to rates ranging from 400 per cent per annum and upward. I believe in the testimony I read on Tuesday night we saw evidence that in one of the states of the union where there had been reductions in interest rates which had been unrealistic, rates there had been in operation as high as 4,000 per cent per annum. In one of the states we saw that a strong business had sprung up—it was either in Virginia or West Virginia—at rates of 20 per cent per month. Those are the type of operations I have in mind when I think of "loan sharks". I have not had to think about "loan sharks" in Canada for 16 years because with the passage of the act they have become a thing of the past.

Q. I suppose, Mr. Cawker, that it would depend upon the individual endeavouring to make the loan. If a man were in a position to negotiate a loan from a bank at 6 per cent per annum he would probably think that someone who could not do this and who negotiated a loan at 2 per cent per month might be in the hands of "loan sharks". I suppose it is a matter of relativity. I was just interested because those words have been bandied about a lot and I did not know what definition there was in the minds of the licensed money-lenders.—A. Our attitude, of course, Mr. Follwell, would be that there is an act of parliament which has worked satisfactorily and which has given an adequate rate in the field over which it has jurisdiction, and I think I speak for the industry completely on this, that anyone who charges a higher rate than that set out in the Small Loans Act of 1939 falls into the category of "loan shark".

An Hon. MEMBER: Hear, hear!

Q. Just at the end of this particular section there is a paragraph which reads:

The successful operation of this legislation has been materially assisted by the desire of licensed lenders to see the act achieve its purpose. Members of the Canadian Consumer Loan Association are constantly on the alert to report to the department any violation of the act or instances of anti-social lending practices in their communities.

We have heard in this committee in the last few weeks the charge that a certain company was operating on a basis of about 80 per cent interest and I am just wondering if you could tell the committee if the Canadian Consumer Loan Association has reported any violations to the Inspector of Insurance?—A. Yes, we have, Mr. Follwell. There have been few, because I believe that the situation is relatively clean. There are very few circumstances involving high rate lending or illegal lending which have come to our attention. But there was one, as recently as a month ago, in the field now covered by the Small Loans Act and we reported that to the superintendent together with the data which we were able to gather—information that might be helpful to the superintendent.

The CHAIRMAN: Are there any further questions on this section, gentlemen? If not, we will pass on to the next section: Loan Office Operation.

The WITNESS: Credit unions and small loans licensees are the only consumer credit services which have their maximum permissible rates of charge

set by law and, in addition, are required to use an all-inclusive per cent per month rate which covers all costs to the borrower. Small loans licensees show in their contracts the rate of charge per month and per annum.

This rate of charge covers more than what is usually considered to be "interest". It represents the lender's gross income from which he must meet all costs of doing business and produce a reasonable profit.

The per cent per month method of charge prescribed by the Small Loans Act is often confused with "discount" and "add-on" methods of charge used in the instalment sales of automobiles, appliances and merchandise. These methods are prohibited under the act. I think most hon. members of the committee are aware, of course, that the apparent rate in an "add-on" or discount type of contract is just half the true effective rate when that contract is repaid by instalments. In addition to the interest rate, conditional sales contracts permit extra charges for insurance, delinquency fees or any other charges which they feel are justified and should be passed on to the customer.

The business of making consumer instalment loans is, in every sense of the word, a retail business. Money is acquired on a wholesale basis and merchandised at retail. As in every other business we have had to face the problems of increasing salaries, rents, advertising and other costs of doing business.

Since the majority of our loans are made without liquid or readily salable security each loan application requires careful investigation. In the best interests of both borrower and lender we must establish the following:

1. Character of the applicant.
2. Earning ability.
3. Stability of employment.
4. Other sources of income.
5. Existing debt commitments.
6. Paying record.
7. Essential living costs.
8. Evidence of family co-operation.

Only with this information can lenders decide whether or not an applicant is a good risk.

The transaction begins when a complete stranger enters the lender's office to enquire about getting a loan. He is assigned to a private room where an interviewer conducts a preliminary discussion of his problem.

The next step is to complete a written application which gives information regarding his job, his family, his fixed expenses (rent, insurance payments, etc.) and the nature and amount of his debts. At this point the lender often decides to pay a visit to the applicant's home. The representative who visits the home turns in a written report describing not only the furniture (the usual security) but also comments on income and job stability, indebtedness and ability to pay, paying habits, residence stability, appearance of home and neighbourhood and other conditions which may be observed best in the home. Many loans are completed right in the lender's office but every application requires verification of employment, address, indebtedness and paying habits and these involve time, labour and skill in order to satisfy the lender that the prospective borrower has capacity to repay the loan.

When the investigation is completed and the amount of the loan is determined, lender and borrower agree on amount of monthly payment and a due date for the instalments. The necessary documents are then prepared, explained, and signed by the customer. In most cases lenders arrange for both husband and wife to be present to receive a thorough explanation of the loan and its terms so that family co-operation may be encouraged.

I may say that this is intended to discourage either spouse borrowing sums of which the other is not aware, and in my opinion it insures that the money lent will be used for a useful family purpose. We, as lenders, must be sure that there is no evidence of mismanagement, because this would adversely affect that borrower's ability to repay.

Extensive bookkeeping facilities are necessary for the collection, processing and recording of the monthly instalment payments.

By law the borrower is expressly permitted to prepay his loan in whole or in part before maturity on any date on which any instalment falls due without notice, bonus or penalty and so, if any borrower changes his mind and pays off the loan quickly, the lender has no way of recovering even his out-of-pocket disbursements.

Borrowers often encounter new emergencies during the term of the loan which require consultation with the lender and a complete review of their circumstances. This may require frequent checking of the borrower's position in the event of sickness, accident or temporary unemployment.

Approximately 30 to 35 per cent of applications are refused after careful investigation reveals that the circumstances of the applicant do not warrant a loan being made. It is not in the best interest of the lender or the applicant to make a loan when it appears that the applicant is over-reaching his credit and may have difficulty making repayment.

I think I touched upon this earlier but I believe it is worth repeating: we are always cautious with regard to a customer who comes to us without a repayment plan. It is our experience that the best loan from our standpoint is made to a customer who is trying to anticipate the normal future emergency or contingency.

The lender can, of course, make no charge to recover expenses resulting from applications which do not result in loans. All such expenses must be paid from revenue from loans made.

In that regard I think we all realize that an application which we turn down is sometimes more time-consuming than an application which results in a loan, and I think this is fact that is recognized in other lending legislation,—for instance, the Canadian Farm Loans Act where an appraisal or investigation fee is permitted. It is certainly true in the first and second mortgage fields where the mortgagor is required to pay the necessary fee for legal charges, search of deed, proof of title and so on. However, these costs are not considered part of the interest rate. It has been said that the Canadian lenders are not able to say no to an application for a loan, but the position is in fact that between 30 and 35 per cent of the people who apply for a loan are not granted one.

The operation of a consumer loan business requires suitable offices and adequate personnel. In common with the customers of chartered banks and other service organizations, our customers expect to transact their business in modern offices. Locations must be readily accessible and well identified. Standard office equipment, telephones, adequate protection for currency and valuable documents, together with furniture and other equipment must be

provided. The employees must be persons of integrity, as they are constantly handling funds and extending credit. They must be intelligent and well trained for the protection of the public, as well as the lender.

The CHAIRMAN: Are there any questions on that section, gentlemen?

By Mr. Philpott:

Q. On page 5 you interpolated some comment about comparisons with your charges and the way the charges are made by the appliance and automobile companies. By and large, how would you say that the charges of the small loans companies of Canada compare with similar credit given by appliance companies, automobile companies and so on?—A. There is such a wide range that your question is a difficult one to answer. Rates range from, I would say, a low in the new car field of 15 per cent—1 per cent either way—to something considerably higher than the rates permitted under the act. I have seen used car rates that extent quite frequently to the 30 per cent per annum figure—2½ per cent per month.

Q. What I am trying to get at is this: I do not suppose that very often a customer comes into a small loans company rather than to an appliance company to borrow money to buy something on time for the obvious reason that he can get it on time from the appliance company?—A. I cannot say that it is a prominent purpose of loans in our industry. I think there is just a general assumption on the part of the general public that they can obtain instalment repayment privileges at the dealer's place of business.

Q. On page 5 you make it very clear that, under the legislation which we have passed here, actually there are other services included in the charges which we have more or less arbitrarily said are interest charges. I understood your interpolation to mean, with respect to these other companies, that perhaps in all cases the public did not understand so clearly the charges they are paying in some of these other forms of credit?—A. They do not understand the charges they are paying, I think, for instance, to an instalment finance company; I agree with you. One of the heaviest elements of charge which is relevant to a point which I made on page 7—the practice of sales finance companies to set down a minimum charge—is the situation where, at the end of a month, the purchaser of a refrigerator or car finds himself in funds and comes to pay off the transaction. In most cases, I think, in the sales finance rates which I have seen, those rates are much much higher than those permitted under the Small Loans Act.

By Mr. Enfield:

Q. Does Mr. Cawker have any figures on the frequency at which you do have to realize on your security which, as you say, is mostly furniture?—A. I think possibly the best place to find that would be in the blue book issued by the Department of Insurance. We report to the Department of Insurance each year on suits filed, suits outstanding from a previous year, repossessions, furniture repossessed and returned to the borrower. They are a fraction of a per cent. In my own ten years experience, we have in one case made a seizure of furniture and retained it. That was because the borrower and his common-law wife agreed to abandon the furniture and asked us to dispose of it. It was not a case where we had seized the furniture and sold it; it was a case of voluntary disposition of the furniture to reduce the obligation.

In the case, for instance, of Household Finance Corporation—and this is for the year 1954—the total number of chattels repossessed and sold was one.

Q. One case?—A. Yes.

Q. That would indicate that it is very seldom done.

By Mr. Follwell:

Q. What would the percentage be?—A. Very minute, point something something-odd.

By Mr. Cameron (Nanaimo):

Q. In every case of a loan which is secured in this way which gets into default, do you repossess? I mean, in reference to the statement which you made just now, does that indicate that the number of loans in default is very minor?—A. No. The question was as to the number of repossessions made.

Q. What I want to find out is, do you always repossess where you have security of that type when a loan is in default?—A. Very definitely not. It is the rare exception where we do repossess.

Q. What course do you pursue?—A. Well, there are a variety of courses. Delinquency is an individual problem for each account which becomes delinquent. Just to make it very factual, the general practice is that at the end of five or seven days past due, the customer gets a notice and he may or may not get a second notice, and then a final notice, which would consume possibly a period of two weeks. Then, in the case of most companies with which I am familiar, the next action would possibly be a letter over the signature of the manager asking the customer to either make his payment or attend at the office to discuss the reasons for the arrears. If the customer refuses both to pay and to discuss the matter with the manager, who is after all responsible for the loan, then a representative might be sent out to see him to find out exactly what the situation is and what is the reason for delinquency. In cases of family emergency, temporary lay-off, or good sound reasons for delinquency, the general practice is that the company will grant an extension for the period necessary.

Now, when you run into a situation—which I am glad to say is very very rare—where the customer takes the attitude “I am not going to pay and I am not going to talk to you about it”, that probably precipitates the very rare case where we might have to take comfort in either the court or our security.

Q. But in the vast bulk of the cases you are able to have the delinquent loan repaid or renegotiated in some way?—A. Yes, or held in abeyance. That is, of course, one of the important reasons for an adequate rate, and as evidence of this is the situation which occurred in Oshawa. A reasonable rate makes it possible to cooperate in times of emergency. To my personal knowledge—and I am quite familiar with, for instance, the situation in Oshawa—I have not heard of one of our companies making a repossession or instituting a suit in the courts.

By Mr. Follwell:

Q. Mr. Cawker, following what Mr. Cameron has said, when you find at any time that you cannot secure the chattel or furniture, or cannot find the recipient of the loan, you then have to write off the account; or, what do you do in that case?—A. Well, of course, if we cannot find him and we cannot bring about repayment, then naturally it becomes a write-off.

Q. Do you have many such write-offs?—A. We deal with the actual figures throughout the industry a little bit later on in the brief, Mr. Follwell. I can say it is quite small.

By Mr. Regier:

Q. Does your annual report to the Superintendent of Insurance include a report on the number of garnishees?—A. Yes, it does—oh, garnishees, wait a minute. I do not think it specifies garnishees. I think it specifies suits through the courts.

By Mr. Cameron (Nanaimo):

Q. The suits would include garnishees as well?—A. They might or might not. First of all, I think that a suit is usually interpreted as taking judgment, and following judgment there might be an order to pay which if ignored might result in a garnishee if the suit has been obtained. I hope that I would be putting it right if I said that a garnishee was a by product, or aftermath, of taking court action.

Q. There would have to be some court action in order to obtain a garnishee?—A. Yes.

Q. I was wondering if it was included in any other kind of action you took?—A. The figures quoted in Mr. MacGregor's return would give some indication of what the total number of garnishees would be, because there has to be judgment before there can be a garnishee; but I think in the majority of cases judgment simply rests and that garnishees as an aftermath are very rare. Personally, in my own business I would never garnishee.

By Mr. Follwell:

Q. You told Mr. Cameron that you have a conference with the borrower and that you grant an extension sometimes to the borrower when you find that he cannot pay for one reason or another. How do you go about granting an extension? Do you make a new contract with the borrower for a longer period, or for a new period, or do you just permit him to catch up later? Under the act I believe that you are limited to fifteen months on small loans. If you find a condition where the borrower has now paid for thirteen months and still has two months to go, if you want to give him an extension, do you under the Small Loans Act write a new contract; or what do you do?—A. No. Generally speaking, in that case, if it goes over the fifteen-month period, then we simply revert to .95 per cent per month. To answer the first part of your question, we do not necessarily write a new contract. There is no advantage to the lender, certainly, in doing that because there is no varied charge for the writing of a new contract. It depends entirely on whether it is of benefit to the borrower and whether it makes a good customer out of a border-line customer because of an emergency or existing situation. It may quite possibly be, No. 1, simply an extension for a certain period; or, No. 2, it might be, as in some cases of hardship, suspension of interest. It has been quite a common practice with the larger companies to give an extension, interest free, to give the family a chance to get back on its feet. In some cases where it would appear to be beneficial to both the customer and the lender, then a new contract might be written. We find many cases. We see it every day in the week, where, due to some emergency, such as a lay-off or a strike when no family funds are available, or in an emergency case of sickness where payments of some kind simply cannot wait, we have made loans for a period like that where it is rather indefinite when the first payments can begin. So that it is a question of dealing with each individual delinquency as it occurs and on its merits.

By Mr. Henderson:

Q. With respect to office administration in the loan business and with respect to trying to cut down your administration costs while at the same time giving to the borrower a longer period of loan in order not to have to go through the cost of re-financing, would you say that 15 months was a long enough period?—A. It would certainly be more desirable for the borrower if that period were extended, let us say, to 400 or 500—to 20 months. That seems to be the general request that we meet with these days. It would certainly make it easier for the lender to be able to grant the 20 months in deserving cases.

Q. What would be the specific advantage to the lender that would encourage the lowering of his administration costs?—A. I do not think there would be a specific advantage to the lender in lowering his administrative costs with an extension of the present contract limit of 15 months. It might of course save at some stage the re-writing of a contract, but as I mentioned earlier there is no compensation for the re-writing of a contract.

Q. When you re-write a contract does the borrower get charged for the financing costs?—A. Absolutely not; that is prohibited specifically under the terms of the act.

Q. Have you any statistics as to the average borrower, as to what period of loan it would best be extended to?—A. Well, I am not sure whether you mean statistics which show the average life of a loan before refinancing.

Q. What is most advantageous to the maximum payments each month that the borrower can make at present day living?—A. Well, of course, present day living certainly pre-supposes an increased number of requests, we find, for a longer period. We do not like to grant—frankly from an administration viewpoint—a 15 month contract, let us say, and then have to juggle with two tables, that is, two per cent for a maximum of 15 months, or one for .95 of one per cent. So that it is possible that occasionally a contract is written for 15 months where it should be written for 20 months. We are all human and I think my first reaction would be that maybe it is easier to write this contract for 15 months and if the customer is finding it difficult two or three months from now, then to absorb the expense of writing a new contract and extending the balance to what could well have been taken care of in an original 20 month contract.

Q. Well, from your experience is there anything to support a 20 months contract—does it follow that it would be easier in the loan business?—A. It would certainly be easier to satisfy and it would appear to meet the customer's requests in the main today. We are making more loans in the range of \$400 to \$500 and even above than we were 20 years ago. People are learning and I think are doing a good job in managing and distributing their income each month, and I think the reason for the desire for a longer contract is that they have planned their incomes; they wish, let us say, to consolidate existing bills which we deal with, and that takes care of the preponderance of our loans. If they had 20 months, maybe they could do the whole consolidation just as well, but if they only have 15 months, possibly they can only do a part of it.

It has just been pointed out to me here and I think it is a good point, that the customer first of all has the advantage of paying off at any time during the contract or increasing his payments and getting the resulting savings in interest. From the standpoint of the monthly payment it would be a fair assumption to say that the customer does like to have a safety margin, in other words, to be able to feel that he can pay for 20 months, but he would feel more comfortable and secure if his contract were for 15, 16, or 17 months.

Q. If he had a 20 month contract and paid it off in 6 months, he would get the advantage of his interest? What percentage of the finance charges does he recover?—A. I think that possibly I should approach it from the other end. Let us take 6 months. He pays only the charges based on the rates which are laid down in the act to the day that the loan is paid off without notice or bonus. I would not, however, create the impression that at the end of six months he only pays one half of the original charge. If you computed it you would see that he pays on a decreasing monthly balance. I could have that worked out very simply and very quickly, but I would hesitate to make a guess at it.

By Mr. Low:

Q. Referring to page 6 of your brief where you have set out a list of eight matters of information which you feel your investigators have to determine, I wondered if the loan companies tried to determine also the purposes for which the loans are being sought?—A. In all cases, sir.

Q. You say in all cases?—A. Yes.

Q. That was not stated here and I just wondered.—A. I think that comes at page 13 where we have given a complete "re-cap" of the industry percentages under purposes of the loans.

Q. I see. I had not looked that far; I wondered if you had any information, or perhaps if you had pointed out in this table any information about the percentage of loans that are granted for medical purposes, medical expenses?—A. We bulk that on page 13 under medical, dental, and hospital bills; and the percentage of the total is 12·90.

Q. Is that of the total in volume or the total of applicants?—A. No, that percentage is related to the total number of loans made.

Q. The total number?—A. That is right.

Q. Have you ever worked it out as a percentage of the total volume, the total money value.—A. I do not have those figures, sir. We could secure them however.

Q. I think it would be very useful if you could.

Mr. PHILPOTT: Mr. Chairman, is this the right place for us to ask questions about page 13?

The CHAIRMAN: I do not think it is really.

Mr. PHILPOTT: I have some questions myself for page 13 and that is why I asked.

The CHAIRMAN: Are there any further questions on this section? If not, let us move on to statistical tables on page 9.

The WITNESS: The following tables are presented in order to give the Committee a clear picture of the extent and nature of the consumer loan business covering loans of \$500 or less, up to the end of 1954, the last year for which all figures are available from the report of the Superintendent of Insurance.

Now, the only industry figures available for 1955 as I mentioned were those published in the interim report of the Superintendent of Insurance or the Department of Insurance. As this report is subject to correction we have not used the figures as it was anticipated that the department would recheck those figures and make them available to the committee. But with your permission I will just comment on the 1955 figures as necessary.

Tables 1 and 2 show the growth of the industry by number of loans and dollar volume since 1950.

TABLE 1

SMALL LOANS MADE

Small Loans Companies and Licensed
Money Lenders

Data from reports of the Superintendent of Insurance
1950-1954

Year	Number	Amount	Average Loan Made
1950	586,672	\$119,295,371	\$203
1951	680,174	142,938,846	210
1952	755,506	167,161,448	221
1953	770,449	174,503,555	226
1954	831,721	186,696,899	224

We note the growth in the number of loans from the total in 1950 of 586,672 to a total in 1954 of 831,721; and in 1955 we now know that the total was 860,135 of loans, and the amount as indicated in the table increased from \$119,295,371 in 1950 to \$186,696,899 in 1954, and for 1955, since added, \$191,248,199.

By Mr. Henderson:

Q. What was the average loan in 1955?—A. The average loan is given in the column to the far right. You asked about 1955? I am sorry. It was \$222. We have a range from \$203 in 1950 to \$224 in 1954, and to \$222 in 1955.

Mr. REGIER: I would like to ask a question on table 1.

The CHAIRMAN: Mr. Regier, the committee agreed that we would continue to complete each section before we began to ask questions. So would you mind deferring until he completes this part?

Mr. REGIER: In other words, all the tables?

The CHAIRMAN: Yes, before the next section dealing with delinquent accounts. After all, that was the understanding of the committee unless the committee wants to change it.

The WITNESS: Table 2 deals with small loans outstanding.

TABLE 2

SMALL LOANS OUTSTANDING

Small Loans Companies and Licensed Money Lenders

Data from reports of the Superintendent of Insurance
at December 31

Year	Number	Amount	Average Outstanding Balance
1950	385,348	\$58,606,932	\$152
1951	442,959	69,259,906	156
1952	467,594	76,990,337	165
1953	482,976	81,840,415	169
1954	523,628	88,822,891	170

This data includes small loans companies and licensed money-lenders. It is taken from the report of the Superintendent of Insurance as at December 31, 1954, and with your permission I will add the figures at the end of 1955. We show a total in 1950 of 385,348 open accounts.

Mr. FULTON: Mr. Chairman, could I suggest that we dispense with the reading of the detailed figures to save Mr. Cawker a lot of reading?

Mr. FLEMING: Can they not go into the record without taking the time to read them?

Mr. HENDERSON: If Mr. Cawker has the 1955 ones—

The WITNESS: I can add the 1955 figure in each case. In Table 2, 1955, the number is 529,556 and the amount is \$88,824,459, with an average outstanding balance of \$168.

Tables 3 and 4 show the wide distribution of loans and balances through all sizes, indicating that lenders are providing a complete service in all loan brackets.

TABLE 3

SMALL LOANS MADE

Small Loans Companies and Licensed Money Lenders

Data from report of Superintendent of Insurance
1954

	Number	Amount	Average
(a) Loans of less than \$50	7,305	\$ 253,359	\$ 34
(b) Loans of \$50 to \$99	84,038	5,577,616	66
(c) Loans of \$100 to \$199	273,229	37,447,288	137
(d) Loans of \$200 to \$299	232,522	54,742,987	235
(e) Loans of \$300 to \$399	146,442	49,039,787	335
(f) Loans of \$400 to \$500	88,185	39,635,862	449
Totals	831,721	\$186,696,899	\$224

TABLE 4

SMALL LOAN BALANCES OUTSTANDING

Small Loans Companies and Licensed Money Lenders

Data from report of Superintendent of Insurance
December 31, 1954

	Number	Amount	Average
(a) Original loans less than \$50	3,344	\$ 91,196	\$ 27
(b) Original loans \$50 to \$99 ..	42,083	2,026,582	48
(c) Original loans \$100 to \$199	174,227	17,212,422	99
(d) Original loans \$200 to \$299	151,762	27,323,829	180
(e) Original loans \$300 to \$399	94,941	23,774,404	250
(f) Original loans \$400 to \$500	57,271	18,394,458	321
Totals	523,628	\$88,822,891	\$170

With regard to the figures opposite items C and D in table 3, I should mention that, of the total number of loans made in 1954—831,721—over half a million of these loans were between \$100 and \$299.

Table 4 portrays the small loan balances outstanding of the small loan companies and licensed money-lenders. This data is extracted from their reports to the superintendent of insurance at December 31, 1954.

Mr. FLEMING: Mr. Chairman, I presume these will go on the record, and that we are just dispensing with the reading of them as such?

The CHAIRMAN: The whole brief will go on the record.

The WITNESS: Many people think that borrowers from small loans companies are substandard, marginal families, and that they borrow in many cases for frivolous reasons, in amounts far beyond their capacity to repay. Such is not the case, as will be seen from tables 5, 6 and 7 which are based on the experience of the lenders compiling this information and which covers eighty-five per cent of the small loan business in Canada.

TABLE 5

Loans Classified by Occupation of Borrowers
Year — 1954

<i>Occupation</i>	<i>Number of Loans</i>	<i>Per Cent of Total</i>
Craftsmen, foremen and kindred workers	213,721	30·21%
Operatives and kindred workers	152,812	21·60
Clerical and kindred workers	74,808	10·57
Labourers (excluding farm)	62,394	8·82
Service Workers	35,582	5·03
Sales Persons	28,245	3·99
Protective Service workers	27,315	3·86
Members of Armed Forces	26,940	3·81
Proprietors, Managers, and Officials (excluding farm)	24,493	3·46
Professional and Semi-Professional Workers	20,095	2·84
Pensions or independent incomes	18,554	2·62
Farmers and Farm Managers	15,688	2·22
School Teachers	4,513	·64
Farm Labourers and Foremen	1,658	·23
Occupation not reported	712	·10
Total	707,530	100·00%

I think, incidentally, that table 5 emphasizes the need for our services in the urban districts. You will note that something less than 3 per cent of our loans are made to farmers, farm managers, and farm labourers. No doubt this low percentage reflects the fact that there is special legislation to assist farmers in their need, and also many of them have individual access to bank credit not ordinarily available to the industrial worker.

Mr. FOLLWELL: Mr. Cawker, you single out farm labourers.

The CHAIRMAN: Could we wait until the end of this?

Mr. FOLLWELL: Oh, I am sorry.

The CHAIRMAN: Just make a note of your question.

The WITNESS:

TABLE 6

* Loans Classified by Principal Use of Borrowed Money
Year—1954

	<i>Number of Loans Made</i>	<i>Per Cent of Total</i>
Consolidate Overdue Bills	154,199	21.79%
Medical, Dental and Hospital Bills.....	91,238	12.90
Moving and Travel Expenses.....	67,655	9.56
Repair Bills.....	65,407	9.24
House Furnishings	56,986	8.05
Clothing	54,964	7.79
Automobile Expenses.....	33,579	4.75
Fuel	26,885	3.80
Taxes	26,273	3.71
Miscellaneous	25,280	3.57
Assist Relatives.....	24,956	3.53
Business for Self.....	22,020	3.11
Real Estate, Mortgages and Interest.....	17,363	2.45
Insurance Premiums	10,674	1.51
Rent	9,071	1.28
Food Bills.....	6,721	.95
Miscellaneous Equipment.....	6,708	.95
Education	3,736	.53
Funeral Expenses.....	2,880	.40
Not Reported.....	935	.13
Total	707,530	100.00%

Table 6 recapitulates the loans classified by the principal use of the borrowed money. This is for the year 1954. I think this will give members a better idea of the many purposes for which our loans are made. As we said, the large proportions of the loans are used to pay for existing debt. In these cases I think it is significant that we do not create new debt obligation, but rather allow the customer to meet his existing obligation. Thus a service is performed not only for the customer, but for other suppliers of goods and services, who are, in many cases not equipped to handle, or carry a large proportion of credit outstanding.

* All loans were classified under the heading describing the use to which the larger part of the loan was applied. Where several bills were paid and no major purpose appeared, the loan was classified under the heading "To Consolidate Overdue Bills". A large proportion of the loans were used to pay existing debts or emergency expenses.

TABLE 7

Classification of Loans Made by Size of Family Income and Relation
between Monthly Payments and Monthly Income
Year—1954

<i>Family Income Per Month</i>	<i>Number of Loans Made</i>	<i>Per Cent of Total</i>
.00-100.00	20,111	2.84
100.01-200.00	160,938	22.74
200.01-300.00	326,846	46.20
300.01-400.00	130,791	18.49
400.01-500.00	43,265	6.11
500.01-750.00	22,489	3.17
Over 750.00	3,090	0.45
Total	707,530	100.00
Average monthly income of borrowers		\$270
Average loan made		\$224
Average required monthly payment (including principal and interest)		\$ 18.55
Average per cent of borrower's income required for monthly payment		6.9%

Table 7 is a classification of loans made by the size of the family income and relation between monthly payments and monthly income, for the year 1954.

It is significant, I think, in analyzing the financial position of borrowers and the relationship of repayment to family income, and family income for these purposes does not include the total salaries earned by the family. It includes only that part of the salary which they contribute to the family pool, possibly in board or any other contribution which must be made. It is not the total of the family income.

This shows that repayment schedules are agreed upon between the borrower and lender so that the monthly payment is well within the borrower's ability to repay.

The CHAIRMAN: Are there some questions on that section, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, on table 1 for the year 1954, you have 831,721 loans. Have you any figures to show what percentage of that number represent families and what percentage represent single persons? Have you any idea on that?—A. From my experience, and Mr. Oakes of the Household organization supports me in this, our loans are made mainly to families, but we do not have a breakdown.

Q. You do not have a breakdown of that?—A. We do not have a breakdown between families and single persons.

Q. I notice on table 7 that almost half your loans fall within one income bracket, that between \$200 and \$300 a month?—A. 46.2 per cent, yes.

Q. Which might indicate that those were families. Have you the figures for 1955 of the number of loans?—A. Under the heading of table 1?

Q. Yes.—A. Yes, 860,135; and the amount is \$191,248,199.

By Mr. Regier:

Q. Mr. Cawker, on table 1, it shows very clearly that a growing number of Canadian families are patronizing small loans companies and licensed money-lenders. Table 2 substantiates that. Now, the years given are 1950 to 1955. Those were years of increasing prosperity and employment in Canada. I wonder if you would care to make an observation as to why, in a time of increasing prosperity and employment and wage rates, and even the net wage rates, there is a growth in the number of families who are going into debt?—A. I could answer that this way, Mr. Regier; number one—it is possibly the aftermath of war, and a long period of being without certain things. Those things became available, and people felt, as I said earlier, a need to refund their existing obligations on a little more workable basis, based on the confidence that was inspired by good wages, and reasonable job security. In many cases they took this means of refunding, as would appear to be the main purpose of their borrowing, from the tables; and from the results we have got from our membership this would seem to be a quite normal result of a better planned handling of the family budget, I think.

Q. Mr. Cawker, I am sure that your association has given some consideration to the fact that Canadians are going deeper and deeper into debt in ever growing numbers. Has your association ever given any consideration to the possible saturation point beyond which the Canadian public at large ought not to continue to increase borrowing, and that even members of your association might find that they had over-extended this credit that is being so freely used?

MR. ENFIELD: Mr. Chairman, before Mr. Cawker answers that question, I would like to ask Mr. Regier what evidence he has to substantiate his statement that Canadians are going ever and ever deeper into debt? We might find that, despite the increase in the production of assets that the country and people have, the debt is not increasing proportionately. I do not think he should make a statement assuming that, unless he is prepared to show such is the case.

The CHAIRMAN: There are more people in Canada, Mr. Regier.

MR. REGIER: Oh, I realize that the growth in the population is not anywhere near the growth of the number of people who are getting themselves involved.

MR. ENFIELD: Those are just statements without any facts.

MR. CAMERON (Nanaimo): The facts are here in the tables.

The CHAIRMAN: I would point out, Mr. Regier, that the growth seems to have levelled off a bit in 1955.

By Mr. Regier:

Q. Yes, I realize that. I think it is a very welcome sign. However, we have heard at some length from Mr. Cawker as to the responsibilities of the organization he represents. Therefore, I really thought that this committee should receive an opinion from him as to whether his association has ever considered the point that they, the lenders themselves, might suddenly get their fingers very severely burned?—A. I would like first of all to make very clear, Mr. Regier, that I am not an economist. I have received every indication from our membership that we are quite happy with the fact that we have a finance department. The Bank of Canada maintains very close watch on the instalment debt of the country. Our approach to the business of consumer debt, where it concerns our customers, has to be based on good common sense only. I think the over-all picture of decision that the Canadian people are going too far in debt is best left to those entrusted to obtain the statistics and make the decisions.

We have here some figures, which I would be very happy to ask Mr. Oakes to give you, on the relationship of personal income and disposal income. I would like to make it very clear that we do not profess to be economists to deal with such a very broad and controversial subject. Would you like to hear those figures?

Q. Yes, if you are going to reassure me that the situation is not as alarming as it appears on the surface. If you have any such statistics you might be able to make them available to the record.

Mr. OAKES: Yes, all those figures are available from the Dominion Bureau of Statistics, Mr. Regier. I have them here. Possibly, when speaking of our industry, you would be interested in the percentage of the instalments of consumer credit outstanding, that we handle? The total of consumer credit at present is in excess of \$2 billion. This means that the licensed lenders with their business to \$500 under the present act and the known operation over \$500 represents approximately 12 or 13 per cent of our total consumer credit outstanding in Canada today and the remainder of that outstanding amount of approximately 87 per cent is represented by instalment sales, sales contracts, retail instalment credit and cash personal loans by banks and credit unions. To break that down further, on December 31, 1955, of the total personal loans as defined by the Bank of Canada, the small loan companies had \$289.1 million; the banks had \$440.6 million and the credit unions \$100.3 million. That is the complete breakdown of the cash personal loans as defined by the Bank of Canada statistics.

The CHAIRMAN: Are there any further questions?

By Mr. Philpott:

Q. With regard to table 6 on page 13, I notice, looking at the first item, that by far the largest category of loans is to consolidate overdue bills. Does this indicate that a large percentage of the Canadian people are too optimistic about the debts they contract and are thereby forced to re-finance?—A. I would not say, Mr. Philpott, that it represents an excessive optimism. It does represent a desire for better planned payments; it simply represents a refunding in most cases of existing obligations to help a more orderly retirement of those obligations.

Q. Then this category which accounts for more than 20 per cent of all the loans made by small loans companies really indicates that a high percentage of the Canadian people who are in debt did not properly plan their payments when they contracted the debts. They had "bitten off more than they could chew"?—A. This, in my opinion, Mr. Philpott, rather reflects the fact that emergencies occur in any family unit as they do in business or government. I could give you an example of what happens in an average family when a reasonably planned schedule of monthly repayments is suddenly thrown into complete imbalance by an emergency such as unexpected medical expenses or a death which no one could possibly foresee. As a result the planned retirement of obligation gets all out of balance. I am glad to say that some of our larger companies are providing an excellent service to the consumers in assisting them to budget their incomes and their repayments even to the point of supplying budget forms giving them information from their research departments on what percentages of income should logically and intelligently be apportioned to each particular item of family expenditure.

Q. I do not want anyone to misunderstand the point of my question. I was not suggesting that you people were getting these borrowers further into debt. In fact, it seems to me that one of the great advantages of the small loans companies is that they do help advise people with regard to the better planning their budgets. A little earlier we have some discussion on the

period of retirement—whether the maximum should be 15 months or 20 months, and that would certainly indicate to me that a considerable percentage of the Canadian people are not properly planning their budgeting to repay their obligations, and perhaps one of the most valuable services you people do for them is to put them on a proper systematic basis.

By Mr. Cameron (Nanaimo):

Q. Have you any figures, Mr. Cawker, to indicate how many of these 154,199 people who have borrowed to consolidate overdue bills have been "repeat" borrowers when they finally came up against it?—A. I do not think we would have a breakdown on that category, Mr. Cameron. I would hesitate to refer the average of re-finances, let us say, the total number of re-finances, to the total number of loans made and then try to apply it to this. I do not think it would be fair and it would be error-ridden.

Q. It strikes me that you have outlined here almost every possible bill that people could incur except the grocery bill which I presume is included in the one at the top, because medical bills are included separately—

An Hon. MEMBER: Food bills are further down.

Q. Oh, food bills are here too. I wonder just how people can get out of debt—how you can lend them money if they are falling behind on their monthly living expenses?—A. The evidence in the industry, Mr. Cameron is not that they are getting too deeply into debt. We have an item here for food bills but certainly the consolidated overdue bills may be due to a combination of many of these items. This is not something we have just prepared; every borrower, when he comes into our office to apply for a loan, states the purpose of the loan and that is the basis of the table.

Q. I know that. That is the important thing about it—it is the basis of the table. That is the position that these people are in, as Mr. Philpott says.

By Mr. Philpott:

Q. It seems to me that there is no important point there. Obviously the small loans companies cannot think they are going deeper into debt or they would not lend them the money. The very fact that they do lend them the money indicates that they think they can carry the loan at that rate of monthly repayment; but it does seem to me to indicate that a very high percentage of Canadian borrowers are, in the first instance, too optimistic about their own capacity to repay, or at least, about the tempo of repayment.—A. In many cases this consolidation of overdue bills can "boil down" to another important category; it might be desirable for the borrower at some stage to have a little breathing space, but I would just like to emphasize what you said, Mr. Philpott, with respect to what function we can serve in this business. You will pardon me if I inject a personal note here but I was introduced to this business in 1935 and I became, by the time the war came along, convinced of the important social and economic functions it could play. Thanks to the training my country gave me I could have taken the choice of three professions on getting out of the service, but I chose this one because I am "sold" on the fact that it is a good business which discharges an important function, and I hope very soon the day will come when my company, for instance, will be able to provide the sort of service that our larger cousins provide for their cash borrowers in the form of budget assistance, consumer goods guidance and so on which certainly to me, aside from the business of operating properly and ethically, is one of the things that keeps most of us in the business.

The CHAIRMAN: Surely one of the reasons for consolidating overdue bills is that they are overdue? They are demanding their money and the loan companies provide an extension of the period for payment.

By Mr. Cameron (Nanaimo):

Q. The thought occurs to me that perhaps the original creditor might not require 24 per cent. I imagine that a lot of doctors, for example, might settle their bills for 10 per cent.

Could you tell us what proportion of your borrowers borrow more money before they have repaid their original loan?—A. Do you mean more than the original loan, or refinance at that time?

Q. Those who negotiate a new loan before they have paid the last one?—A. Roughly 65 per cent.

Q. I think that is the answer to this question. Eventually they will not be able to.—A. The Canadian borrower has been getting just a bit of a kicking around here. Out of loyalty, as I mentioned the other night, it is not palatable to me; in many cases, and I think it is basic, the Canadian people want to keep their credit good. So, therefore, the rather heavy percentage under the notation of “consolidating overdue bills” does not, in my opinion, represent overindulgence in credit but, rather, represents an attempt to inject good management into the business of running the family.

The CHAIRMAN: Are there any further questions on that section?

By Mr. Follwell:

Q. In your table No. 5 on page 12 you list the loans classified by the occupations of borrowers and I notice you have farm labourers and foremen entered as 1,658 which, as a percentage of the total, is .23 per cent. It so happens that I have a very considerable rural section in my riding and I would like an explanation as to whether or not—I tried to make the point the other day—loan companies are resisting borrowing by farm labourers because of the fact that they might be seasonably employed, or whether it is just because loan offices are not as easily accessible to farm labourers as they are to people working in towns—or is it because farm labourers do not require financing quite as much as urban dwellers?—A. Unfortunately, under the terms of the present act I think it is a little unfortunate—but we have not seen fit in the association brief to make an issue of it, though I have had had expressions of opinion from several of our members—that we are specifically prohibited from making a seasonal payment arrangement and we know that that is the prime requisite for the farm borrower, generally speaking, whether he be a proprietor or a labourer. I think that as the companies spread more into the rural areas we shall see some step-up in the proportion of loans made to farm labourers. It is something which, I think, has to come with growth. In my own case at the moment I am operating three offices in communities whose population is less than 4,000, I think, at the outside. Of course we are small and this does not make a great deal of impression on the national percentages but I think it might be the start of a trend, and that is why I mention it: we are finding now that in relation to our total loans under the heading of occupations the loans made to farmers and farm labourers are increasing quite considerably. I think this is something that has to come with growth; there is certainly no resistance to making loans to farmers or to farm labourers.

Q. There has been some discussion of an extended term of repayment beyond 15 months, comparable with the period allowed to certain other lenders—24 months, for example—If such a facility were given to the small loans companies would that put them in a better position to make loans to farm labourers?—A. I do not think I would like to venture an answer to that question. I think it would benefit the farm labourer exactly the same as it would benefit the industrial worker, for instance, or proprietor in business for self

who, for reasons of his own—maintaining his credit or planning his monthly expenditures—would prefer to have twenty or twenty-four months to repay his obligations. I think you could sum it up by saying, yes, it would benefit the farm labourer.

Q. The farm labourer who works for a season would have at least two seasons to pay it off.

On table 6 you have indicated as the second biggest item as to why people borrow money is for medical, dental and hospital bills. I see that the total number of loans made was 91,238 and the percentage of total was 12.90. This might be a leading question, but would you agree that that might be an indication that hospitalization and medical coverage on a national basis was about due or well overdue?—A. I think I would rather shy off that one, if I may, Mr. Follwell.

Mr. PHILPOTT: Mr. Paul Martin is going to answer that one tomorrow.

Mr. FOLLWELL: I am glad that somebody will answer it.

By Mr. Follwell:

Q. I notice, Mr. Cawker, in the last item but one, funeral expenses, that the total number of loans is 2,880 and the total percentage is .40, which is a pretty small percentage. I presume the reason for that is that usually people are covered by life insurance and that the life insurance pays the funeral expenses?—A. I would think so.

Q. Mr. Chairman, there is one other question. In regard to the loans here, for instance, for house furnishings in particular, would the loans be made because of the fact that there might be a company in the house furnishing business who would have a sale, on a cash basis, and that an individual purchaser could probably buy at a very low price for cash from the particular company which had the sale? Would you find that they would borrow from a small loans company for the purpose of paying cash in buying items for the home?—A. It is quite common, yes, because in many cases they would effect a saving many times more than the charges which they would pay. Fortunately, in this country, we have not yet got to the point where a dealer, let us say, a furniture house, is more interested in his cut of the finance charges than he is in making a sale. That is the situation in the United Kingdom today—since we were on that subject earlier in my testimony—that in the purchase, or sale, of a car, or sale of furniture, because of the kick back—if you will excuse the expression—from the finance company to the dealer, the dealer would much rather have the sale on the instalment basis than have cash. But I am glad to say that that is not the situation here. Many times extensive savings are effected.

Q. You are saying this, that having the availability of, and being able to secure, a loan, would make it possible for a householder to be at better advantage by paying cash for whatever merchandise he might need?—A. Yes. There is one thing which I neglected. I think that this might sum up the American scene. This is from the National Consumers Finance Association facts and figures, from the 1955-56 edition: "This U.S. survey indicates that of consumer finance families—that is borrowers—38 per cent own their own homes, 52 per cent own their own automobiles, 71 per cent have life insurance, 28 per cent have savings accounts, 20 per cent have postal savings or bonds, and 26 per cent have checking accounts." I think that that is a rather important addition to some of the statistics which we have tried to give you, especially in table 7 on page 13.

The CHAIRMAN: We will now go on to "Delinquent Accounts".

The WITNESS:

DELINQUENT ACCOUNTS

Since the Small Loans Act came into force, Canada has experienced full employment during war time, followed by a period of expanding economy. It is natural that during this time losses have not been a major expense factor. However, the risk element is always present in this business and is reflected, not only in losses, but also in costly, time-consuming adjustment of those accounts requiring special attention. In the event of a downturn in the business cycle, both of these factors would affect costs much more severely than at present.

In many cases the lender finds it necessary to spend a great deal of time in helping the borrower work out a solution to the problem which caused the delinquency. It is not only good business for the lender to take the time and trouble necessary to achieve this result, but it also helps the borrower to regain a sound financial footing.

While write-offs in the industry in 1954 were \$547,081 or .64 per cent of the average amount of loans outstanding, table 8 shows that 105,283 or 20 per cent of borrowers required special attention over and above normal payment procedure. If one-tenth of the delinquent balances shown, had to be finally written off as bad debts, the write-off would then have been four times the actual write-off of .64 per cent.

TABLE 8

Delinquent Accounts

Small Loans Companies and Licensed Money Lenders
Data from Report of Superintendent of Insurance
December 31st, 1954

	Number of Accounts	Amount of Unpaid Principal Balances	Averages
With instalments or portions thereof in arrears:—			
(a) Under one month.....	60,619	\$10,393,740	\$171
(b) One to two months.....	21,705	3,571,032	165
(c) Two to three months.....	7,627	1,128,952	148
(d) Three to four months.....	4,039	582,136	144
(e) Four to six months.....	4,067	585,721	144
(f) Over six months.....	7,226	998,416	138
Total	105,283	\$17,259,997	\$164

On page 20 of Mr. MacGregor's brief he has supplied the bad debt losses for the years 1934 to 1937. This example has been used as the depression period of the 30's, and between 1934 and 1937 the net amount written off was only about $\frac{1}{4}$ of 1 per cent of outstanding balances. Perhaps we could add to those statistics. As an instalment payment industry we were immediately affected by the reduction or loss of income of the consumer and, taking the years 1932 to 1933, of the largest and most efficient company at that time, the following percentages are bad debt write-off as a percentage of average loan account: 1931, .98; 1932, 3.82; 1933, 1.02. It is significant that Mr. MacGregor states the net amount written off as being $\frac{1}{4}$ of 1 per cent of outstanding balances between 1934 and 1937. Earlier on that page he states that the net

amount written off annually, which we assume to be for the total period on which he has statistics, is $\frac{1}{2}$ of 1 per cent of outstanding loan balances. The average write-off is just twice that of the so-called depression period, 1934-37.

The CHAIRMAN: The big loss was when the depression first started.

The WITNESS: That is right.

Dealing with table 8, delinquent accounts of small loans companies and licensed money-lenders, this data is taken from the report of the Superintendent of Insurance of December 31, 1934. It shows the state of the delinquencies expressed in months, number of accounts, unpaid principal balances and the averages.

The CHAIRMAN: Are there any questions on these delinquent accounts?

By Mr. Henderson:

Q. Have you the figures for 1955?—A. No. They have not become available except as in Mr. MacGregor's table.

The CHAIRMAN: Are there any further questions? If not, I would suggest that we adjourn. At 8.15 we will start on the next section.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: I am sorry to be late, gentlemen. We now have a quorum.

Mr. FLEMING: Mr. Chairman, I should like to bring up a matter on which the steering committee found itself unable to agree, namely the matter of having extra or additional sittings of the committee. Last Tuesday in this committee I tried to say that I thought that we should all take what steps we could to make sure that this bill is not permitted to be left to die by the way-side. The house, after unanimously giving the bill second reading referred it to this committee and I am quite sure that the house was serious in expecting the bill to be reported back at this session in time for action—such action as the house might choose to take, and also the Senate.

While nobody now can be certain just when the end of the session is coming, it is evident that we are approaching it, but our task here is not yet completed. I am sure there is not one of us who contemplates with any degree of pleasure or satisfaction the undertaking of additional meetings at this late stage of the session. The house is sitting three times a day and the pressure of work is very, very heavy there; but whether we like it or not, it seems to me that we are going to have to take some heroic measures to make sure that our task is completed and that the bill is reported back in time for action by the house and the Senate.

Now we had arranged earlier to hear a number of other witnesses, but it may be that we can—as is often done in committees—allocate the time for these witnesses to be heard. In the case of those who have submitted briefs, I think we can help by reading those briefs ourselves, and while there have been some differences of opinion expressed in the committee which I do not wish to raise again, as to the earlier studies, nevertheless in all these committees it does take the committee a while to get into the heart of the problem. But now that we are well into this problem with the extensive testimony we have had from Mr. MacGregor, and now the testimony we are having from Mr. Cawker, I am quite certain that we can increase our pace as a committee without doing an injustice to any witness who wishes to be heard.

We are having four meetings a week at the present time and it is evident that if we are going to continue merely with the present number of meetings

we cannot complete this task in time for the House and Senate to take action on the bill at this session.

I think the house was serious in wanting this bill referred back at this session, and we want to see action on the bill. We are prepared to co-operate in any way we can to bring about action on the bill. With that end in mind, Mr. Chairman, I move that we increase our sittings of the committee. We are having four a week at the present time, two on Tuesdays and two on Thursdays. The schedule of meetings that I propose and that I move is: two meetings on Mondays, two meetings on Tuesdays, one meeting on Wednesdays, two meetings on Thursdays, and one on Fridays, so as to give us eight meetings a week, just double the present number. I think that would enable us to complete our task, and if we apply ourselves to it, as I am sure all members of the committee will, I think we can finish it; and I am quite satisfied that that is the wish of the house.

We do not want to see this bill left to die by the wayside in a last-minute rush toward prorogation.

I do not think we can defer a decision on this matter any longer because, looking at the arrangements that have been made earlier as to the reception of briefs and testimony, I think we are going to have to put such an increase in the number of our meetings into effect right away. Therefore I submit my motion.

The CHAIRMAN: Mr. Fleming, as you are probably well aware that it is a fact, with our type of government, that prorogation of a session is dependent upon the opposition.

Mr. MONTEITH: Oh no, no, that is not a fair statement.

The CHAIRMAN: As long as the opposition wishes to sit, parliament sits; and I am entitled to make a comment on the motion. Since the government has had no idea whatsoever from the opposition as to when we are likely to prorogue, it strikes me that Mr. Fleming's motion is one that is based on the assumption that we are going to prorogue shortly. Well, if we are going to prorogue shortly—if you can tell us that—I for one would be very interested in this motion. But if we are going to go on indefinitely, perhaps for another month or two, I cannot see the urgency of it at all. Perhaps you can give us an assurance that we are going to prorogue next week.

Mr. FLEMING: I wish I knew the date too, but I do not believe the man has been born yet who knows when parliament is going to prorogue. I only wish I knew. But all I can say about it is this: judging by the order paper—and it is the government's order paper—with the program of legislation and the estimates, I would not be at all surprised if prorogation comes down, let us say, in two and a half weeks or thereabouts. That is my personal and best estimate. But even if we are to have three or three and a half weeks I think the session is sufficiently advanced and the end of it sufficiently imminent that we should not defer any longer a decision in regard to undertaking now to embark on a program of additional meetings if we are going to get this study finished, and I cannot emphasize too strongly that we want to get it finished and get this bill reported back to the house.

The CHAIRMAN: If you can assure us when we are going to prorogue, I can then calculate how quickly we would have to do this.

Mr. FLEMING: I wish I could; nobody wishes it more than I; but I am afraid you have given me a super-human task, to ask me to give you assurance as to the date of prorogation, because I cannot tell you and I do not think anybody in this room or outside it can tell you.

Mr. HENDERSON: You might say that the government starts a session and the opposition determines when it shall be through; but as far as sitting every

day is concerned, some of us have obligations to other things than to this committee; and this leads to the point where probably it is tiring and boring, and we have other things to do. It seems to me that we should come to the best conclusion that we can. Mr. Fleming mentioned that in the agenda committee there was a non-agreement as to the number of sittings that we could have in this committee in order to conclude it. That, of course, has a question mark after it. There was also a non-agreement on a compromise to conclude this matter, a compromise perhaps which would have had in mind both the borrowers of Canada, that they would have a lower rate of interest in the first place, and in the second place it would be a marginal proposition, probably, that Canadian companies could stay in business. But that compromise could not be agreed upon.

So here we are to hear the evidence, and I would be the last man—and I am sure the other members of the committee, including Mr. Fleming as well, would not want to decide upon a problem or to interfere with anybody's stake in Canada, be he American, Canadian or what have you, without hearing both sides of the story.

As far as sitting every day is concerned, and every hour we can, I feel that is a little too much to ask. When some of us—I know—I think it would be true of Mr. Fleming and every member—each member has his constituents to look after. Also we must bear in mind that we have to have some consideration for the people who come before us to give evidence. But that is their business.

Our business is legislation; our business is to get the best evidence we can get upon which we may base our conclusions, and to give every opportunity possible to everybody to give us that evidence. If we are going to have more meetings—this week we are sitting on Saturdays, and that takes away a day when some of us could look after our constituency matters—I, for one, would feel that we should not go for too many more meetings.

It may be that if we could have reached a compromise it would possibly have been something with the two bases in mind, our service to the borrower and our service to Canadian companies, and to ensure that capital will remain in this business to keep us from going into the hands of loan sharks.

I think that Mr. Fleming's motion is a little premature today because we have not yet heard the other side of the story, or one side of this story. Mr. Cawker is still in the witness box and we have not heard him completely as yet. I suggest we wait until we finish with Mr. Cawker and then have another agenda committee meeting. This is a Thursday night and we have lots of time before Monday or Tuesday to do that, because we will be here on Friday and Saturday. That is just my opinion.

Mr. MONTEITH: There is a statement which you made, Mr. Chairman, that really bothers me; it was to the effect that the opposition determines when we get out. That may be so if the opposition should choose to ignore a reasonable examination of the estimates; then, I presume we would get out earlier. But I hope you are not suggesting that such be done by the opposition.

The CHAIRMAN: I would not care to advise the opposition. I think they are better off with the advice that they have.

Mr. MONTEITH: I think it is very obvious that the duty of the opposition is to examine the estimates, and I think that has been proven in the last two or three days to quite a degree.

Another thought is this: I believe the witnesses would prefer to sit here every day of the week rather than to come in for Tuesday and Thursday and to sit idle during Wednesday and do nothing, while they could be doing the business for which they are here. There is another thought: Mr. Henderson

intimated that there was a responsibility for the bill going through, and that possibly the suggestion for an increase in the number of sittings was premature. I think quite frankly that if we do not increase the number of sittings it is quite obvious we will not be able to complete the hearings and the bill will not be reported, and then the responsibility will be on the government.

Mr. CRESTOHL: I am somewhat distressed by Mr. Fleming's suggestion but for another reason altogether. This is a problem which in principle is a very serious one; it is a sociological problem quite apart from it being an economic problem. I do not think that the committee should be expected to be "pressured" into a decision on a very important matter by sitting eight or ten times a week. I submit that would certainly be a form of pressure and we would have to be working in haste. I do not think that the committee would then be able to do justice to this very important problem. Moreover, Mr. Chairman, we have business in the house; and some of us want to be present when the estimates of certain departments in which we are particularly interested come up, on behalf of our constituents. If we are to accept Mr. Fleming's schedule, we would be here all the time, with no hours left for our attendance in the chamber.

Mr. FLEMING: Yes, in the mornings.

Mr. CRESTOHL: Well, perhaps in the mornings; but one third of the time allotted for the sessions in the chamber is, in my opinion, not sufficient. And as I said at the outset, to compel this committee to work under pressure would not give it an opportunity of studying the problem, and giving it the attention which it deserves. Therefore I would be opposed to the suggestion.

Mr. MACNAUGHTON: I would agree with the remarks of Mr. Henderson. Moreover, I think it is quite a physical strain—we might as well admit it—if we are to be here for five days a week with everybody working on this committee, when we have other things to do as well; we have our constituency business to attend to; but on the other hand I would be quite prepared to have an extra sitting on Wednesday. I think we need at least two days, Monday and Friday in which to attend to the various duties which we have outside of this committee.

Now, I do not know whether that would be acceptable or not. I agree that we should hear all the witnesses who want to come before this committee. But you cannot rush the witnesses; you must hear them and it takes a little time. Therefore I would suggest, if possible, let us compromise and sit on Wednesdays.

Mr. MONTEITH: Sit when?

Mr. MACNAUGHTON: On Wednesdays.

Mr. MONTEITH: One more meeting a week?

Mr. MACNAUGHTON: I do not care whether it is two meetings on Wednesday or not, but at least we would have a little time to attend to other important matters, too.

Mr. FULTON: Mr. Chairman, it is interesting to hear the comments that have been made by Mr. Crestohl and Mr. Macnaughton. I have been trying to remember, and I hope I do not do Mr. Crestohl an injustice, but I believe he was on the Estimates committee last year, and I know Mr. Macnaughton was, when, much earlier in the session than this, the suggestion was made by the chairman of that committee that we should sit every day. Because it was earlier in the session, we in the opposition suggested that perhaps we were rushing things a little. But, as I recall it, a unanimous decision of the government party on that committee, of which, of course, Mr. Crestohl and Mr. Macnaughton were members, was that we were taking the attitude which indicated that we did not want the committee to finish its work. That was very much earlier in the session than this.

The CHAIRMAN: Has that anything to do with the merits of this suggestion?

Mr. CRESTOHL: For the record, I should like to say that I was not sitting on the estimates committee last year, and that I have no knowledge of what Mr. Fulton just said with respect to rushing...

Mr. FULTON: I apologize, but as I said at the outset...

The CHAIRMAN: That is a good average, Mr. Fulton. You were 50 per cent right.

Mr. MACNAUGHTON: I do not think that calls for any comment.

Mr. MONTEITH: I do not know how it can help it.

Mr. CAMERON (*Nanaimo*): I think, Mr. Chairman, it is regrettable that this move was not much earlier. There appears to be a determined opposition to the increasing of the number of meetings. I think that we have no alternative but to increase the number. I admit quite frankly that Mr. Fleming's plan is a very strenuous one. But, I would point this out with regard to the time in the house, and I think some members have overlooked the fact, that it has been mentioned that the house is sitting in the mornings, and the proposal is only for one meeting on Wednesday and one on Friday, and that the house is also, from now on, going to be sitting on Saturdays. The house business will be going on then, and members will be free then to attend in the house.

I cannot see any way that we can escape doing this. As for postponing it, that means we might just as well fold up now. I certainly would support this, very reluctantly from my own point of view. I do not relish the idea; but as Mr. Fulton said, two years ago, the first year the estimates committee was on, we sat every day for quite a while. This session I know the Agricultural committee has been sitting three times a day. So, I do not see that we are hard done by, and if we are hard done by it is entirely because we did not take action earlier to increase the number of sittings in a more moderate way, as we might have done before.

Mr. BENIDICKSON: Mr. Chairman, I think members will recall that earlier in the session I indicated some impatience about the progress of the committee on this bill, in which our department is interested. So, I think you can understand that I have sincere sympathy for the views that are being expressed about accelerating now, rather belatedly. However, it has been my experience that matters of this kind are usually best left to the agenda committee. Now, Mr. Fleming suggested that there was a disagreement in the agenda committee on this subject. I was a member of that committee and that was not my impression. I know Mr. Fleming was...

Mr. FLEMING: What I said was that they had not been able to arrive at an agreement.

Mr. BENIDICKSON: I want to be corrected, but my understanding was that it was a postponement of the consideration of changing the frequency of meetings, not a disagreement. What I am worried now about is this: supposing a motion is put forward that we have six meetings, or seven meetings per week, and somebody else wants five meetings, and somebody else wants nine.

Mr. THATCHER: And some three.

Mr. BENIDICKSON: You waste time at a meeting of this type...

Mr. FULTON: You can, of course, move an amendment.

Mr. BENIDICKSON: Yes, and my amendment would be to the effect that this matter be referred back to the agenda committee to meet, as we have done in the past week, at the conclusion of our present sitting.

Mr. HENDERSON: I thought the agreement was that we would play it by ear at this meeting.

The CHAIRMAN: That was my impression, Mr. Henderson, but apparently it was not a unanimous impression.

Mr. HENDERSON: I guess Mr. Fleming was not there at that time.

Mr. MONTEITH: I was present, and that certainly was not my impression, Mr. Henderson.

Mr. FLEMING: Mr. Chairman, if Mr. Benidickson has put that in the form of an amendment, I would like to urge the committee that they should not adopt that amendment.

In the first place, it would mean deferring the matter at least until next Tuesday, whereas I think the increase needs to be inaugurated now; because our regular schedule of meetings at present would call for the next meeting of this committee to be held next Tuesday afternoon. The agenda committee could only meet and make a recommendation to the next meeting. I think, with all respect, time is too precious now to warrant a deferment of that length of time in making a decision.

In the second place, I think that we in this committee are fully appraised of all the circumstances. The only effect is to stall action if you have it referred to the subcommittee. The subcommittee is not going to be able to arrive at an agreement. It was not able to do so today on this subject. I am not criticizing the committee or any member of it for that, but I am suggesting that it is much better, now that we have discussed the difficulty here, to reach a decision here. We are going to be no further ahead by referring it to the subcommittee, because the same situation, and the same views, will be simply reflected there in miniature. I would urge that we go forward now and make our decision at this meeting. We have had a full discussion; why should we not make the decision now?

Mr. BENIDICKSON: Mr. Chairman, I will only say that I have usually found that Mr. Fleming wants 100 per cent or nothing. As far as I am concerned, I thought we could arrive at a compromise by having another inter-party huddle on this matter, that would be more representative in a composite form of the best wishes of all. But, as I have found on some other occasions, if there is insistence, I am afraid I will have to go against his motion.

Mr. FULTON: If you remember, on Tuesday night we moved a similar motion, when the suggestion was made by Mr. Regier, that the matter be referred back to the steering committee for its consideration. You and your colleagues, of the Liberal party, all voted against that motion. That was another rather odd change of heart.

Mr. BENIDICKSON: The steering committee has been making very substantial progress, Mr. Fulton. I thought it might be able to make some more. It was with that thought in mind that I questioned whether or not I could vote for a motion that I know people would at this point disapprove of.

The CHAIRMAN: Have you a seconder for your motion, Mr. Benidickson?

Mr. BENIDICKSON: I do not know whether I have. I will move that this matter be referred to the steering committee.

The CHAIRMAN: The subcommittee on agenda and procedure. Is there a seconder?

Mr. ST. LAURENT (*Temiscouata*): I second it.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, it seems to me that I recall you ruled a motion to defer out of order the other day. You said it was not a proper amendment.

The CHAIRMAN: You have a fantastic memory.

Mr. CAMERON (*Nanaimo*): I have a very keen memory of it.

Mr. MONTEITH: It certainly occurs to me that an amendment such as this, throwing it back to the steering committee, would stall the whole procedure.

The CHAIRMAN: I most decidedly did not rule it out of order. I ruled it in order. I said it may be ineffective, and that it might serve no useful purpose, but that the motion was in order. If you want to read the proceedings, there it is. Your memory, as usual, is very convenient.

This is an amendment moved by Mr. Benidickson and seconded by Mr. St. Laurent that the matter of frequency of sittings be referred to the subcommittee on agenda and procedure for their consideration and recommendation, later this day. All those in favour—

Mr. FLEMING: Mr. Chairman, there are some words added to that amendment. Mr. Benidickson has apparently added the words "later this day".

The CHAIRMAN: He did not add them; he put them right at the beginning.

Mr. FLEMING: I beg your pardon?

The CHAIRMAN: He put those words right at the beginning.

Mr. FLEMING: I did not hear them. When is this committee going to meet to receive the report of the agenda committee?

Mr. BENEDICKSON: As is customary, at the call of the chair. The clerk sends out notices.

Mr. FULTON: Are you able to guarantee any more success as a result of a meeting of that committee than was achieved the last time? The chairman was asking us to guarantee something a little earlier. Perhaps we would be entitled to ask him for a guarantee that there would be an agreement, and that we would not be wasting time.

The CHAIRMAN: And perhaps you would get exactly the same answer.

Mr. BENEDICKSON: I cannot think of any greater waste of time than a committee meeting of this kind.

Mr. FLEMING: May I resume my question? Ordinarily the next meeting of this committee, unless we do increase the frequency of our meetings, would not be held until next Tuesday afternoon. Even if the agenda committee met later this day, we would not have any report before this committee until Tuesday afternoon, and no action would be taken until then. Now, is the committee prepared to meet, say tomorrow morning, to receive a report of the agenda committee?

The CHAIRMAN: Mr. Fleming, I would like to be able to give you a guarantee. As you have already stated, you have not the faintest idea when we are going to finish this session. It is very difficult for me to give unequivocal answers when yours are so equivocal.

There is a motion before this committee—I am not proposing to give you any guarantee at all. Why should I; you people give us none.

Mr. FLEMING: The difference, of course, is this, Mr. Chairman: I think it must be apparent to all that it is not possible for any man to give a guarantee as to the length of the session or as to when prorogation is coming, but it is possible, surely, for the chairman of the committee to say when the next meeting of this committee will be called. It seems to me that the difference between those two propositions is the difference between day and night.

The CHAIRMAN: We have spent half an hour on this now. If you wish to bring up a new amendment—

Mr. FLEMING: That is why I think we ought to deal with the matter finally now instead of having it shelved by this amendment and sidetracked.

The CHAIRMAN: It has never been your opinion before that it was stalled by being sent to the agenda committee.

Mr. FLEMING: It certainly is in this juncture.

Mr. CRESTOHL: Could you give the backbenchers the benefit of your wisdom. I cannot hear what you are saying.

The CHAIRMAN: What were you saying, Mr. Crestohl?

Mr. MONTEITH: He said consult Mr. Fleming.

The CHAIRMAN: If you would speak up a little we would get it up here.

This is an amendment moved by Mr. Benidickson, seconded by Mr. St. Laurent, that the matter of the frequency of sittings be referred to the sub-committee on agenda and procedure for their consideration and recommendation later this day.

Mr. FLEMING: I would ask for a recorded vote, Mr. Chairman, both on the amendment and the original motion.

Amendment put.

Mr. HENDERSON: This is on the amendment?

The CHAIRMAN: This is on the amendment to refer the matter to the subcommittee on agenda and procedure.

Amendment carried.

Mr. FLEMING: What are the totals?

The CHAIRMAN: Yeas, 14; nays, 8.

I think we can get on with this brief.

The WITNESS: Mr. Chairman, toward the conclusion of this afternoon's sitting there was some discussion on some of the services provided by the small loans companies and licensees to the borrowers in the way of social services. I made some reference to various budget and purchasing circulars which are put out by the research department of one of our larger members. We do not have any big supply of them here,—I just had them gathered up from one of the offices. I would, however, be glad to leave them here in case anyone would care to examine them. I regret I have not enough copies for distribution to the committee.

The CHAIRMAN: I will just put them out here—if anyone wants to look at them, they are available.

Mr. FOLLWELL: We cannot hear what the witness is saying nor can we hear what the chairman is saying, if he is saying anything.

The CHAIRMAN: I can assure you he has not said very much.

Mr. CRESTOHL: What were you saying, Mr. Follwell?

The CHAIRMAN: For your benefit, Mr. Follwell, these are pamphlets pertaining to the management of budgets which are produced by certain of the loan companies to help people manage their budgets in a somewhat more scientific and systematic way. I do not know how you are situated but it may well be that one of these may benefit you, and I will be glad if you would look at them.

Mr. FOLLWELL: I can only agree with you—I am just a typical Canadian and in about the same position as every other member here; I feel sure we could get valuable information from these budget pamphlets.

The CHAIRMAN: In that case there are several different varieties here, Mr. Follwell. Perhaps we could get on with the brief. We have arrived at page 17.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, recalled:

The WITNESS: Changed Conditions Call for Amendments to Small Loans Act.

In the post-war period there has been a constantly increasing demand for consumer loan service from salary and wage earners who comprise the large majority of our customers. Lenders have responded by opening branches in many communities in order to meet this demand. They have also added units as required to serve adequately the rapidly increasing populations of our metropolitan areas.

Important factors in this development have been:

1. Industrial expansion.
2. Higher salaries and wages.
3. Increased population.
4. Public recognition of the benefits to be derived from sensible use of consumer credit.

To meet the changed conditions, members of this association have been aware for some time that, if the Small Loans Act is to maintain its effectiveness, certain provisions should be amended.

While statistics are useful as a yardstick, the experience gained by lenders in their day-to-day dealings with customers, fills an essential role in gauging the requirements of borrowers and the industry which serves them. It is the sum of this experience together with the statistical record which provides the basis of this association's submission.

The CHAIRMAN: Are there any questions on this section of the brief?

By Mr. Henderson:

Q. Under "Higher Salaries and Wages", I would like to ask Mr. Cawker whether Canadian small loans companies pay any supervisory fee to the acceptance companies which they foster. I do not know whether this is the place or not at which this question should be asked. However, I would like to know about this supervisory fee, if any is paid.—A. I think this particular section refers generally to salaries and wages, but I would be glad to proceed to answer the question you raise...

Q. I do not know any other place at which I could ask it.

By Mr. Cameron (Nanaimo):

There must be some reference to expenses in the brief.—A. I do not think we actually deal with the point you have brought up, anywhere in our brief.

By Mr. Henderson:

Q. Then I would be pleased to have the question answered under this heading.—A. It is not the practice—let me make a division here—of the Canadian independent companies—I have not closely enough examined these larger Canadian chains—to operate a sales finance company side by side with their small loans business, and to pay any kind of supervisory fee or management fee to the sales finance company. I should say also, for the sake of the Canadian companies, that we were amazed at the information that was placed before this committee with respect to what I would call the ballooning of profits in the small loans field of the largest operator in that field. In effect it is the subsidization of the small loans earnings of that company by removing an item of expense, which evidently meets with the approval of another very important department of the government of Canada. We are, as Canadian companies, accused—I will not say "accused" but called to task—on many occasions for allotting costs which in the opinion of the department—

Mr. HENDERSON: Which department?

The WITNESS: —of the Department of Insurance are heavily weighted—too heavily loaded—on the small loans companies; in other words, the thought has been raised that there is a device being used in the allotment of costs as

between the sales finance business of the small loans company to load too much of the day-by-day cost of doing business on the small loans company. I was rather interested to hear Mr. MacGregor say that differences in the approach to costs as between the companies and their auditors and the department had been the subject of discussion, but never a matter where the department would change the figures. Therefore, I think we can only assume this raises the profits attributable to these small loans section of the business. I believe Mr. McGregor said in evidence—

Mr. BENIDICKSON: What page?

The WITNESS: No. 16, page 524:

I should make it clear however that throughout the discussions the department never changed the statement. We never imposed our view in any respect.

I believe there was some other place in the evidence where a statement was made with respect to the general picture of the relationship with the companies. I think, in all fairness, that that particular statement refers to discussions between Household Finance Corporation and the department.

On March 11, 1949, Bellvue Finance Corporation received this letter from the Department of Insurance:

Dear Mr. Cawker:

I have yours of the 24th instant.

In completing annual statements we would like to see preserved a continuity from the standpoint of our examiners' figures favouring action by companies to bring their books into line wherever possible where the department has seen fit to make changes.

If you agree in this respect, I can see the difficulty with which you are confronted as expressed in the second paragraph of your letter. Possibly the continuity we would like to see could be accomplished in future years by your office by appropriate amending words in the verification itself; for example, after the words "made up from the books of the company" which appear in the verification there might be inserted immediately thereafter some qualification or modification to this effect, namely, "except as the statement has been amended to reflect alterations made in a previous year or previous years by officers of the Department of Insurance".

Yours very truly,

My letter was dated February 24, 1949, and I said:

Since the sworn verification makes reference to the contents of the statement as being made up from the books of the company, it is not possible to sign over the totals brought forward by the department.

Now the situation which bothers us as a result of this sort of thing is actually we feel we are confronted continually with a ballooning of profits in the small loans part of our business with a view simply to making a rate, and when we begin talking in terms, I believe, of \$240,000 in the case of the largest lender and, therefore, the toughest opposition for the so-called marginal companies, it begins to assume rather sizeable proportions; and I think I should say here for the sake of the Canadian companies that we feel it is not a proper state of affairs to be permitted in a situation where parliament, or a committee such as this, is involved in making a very important decision on what the maximum rate should be and, of course, taking it further, just how many Canadian companies should survive in this business and give the large operators the type of competition I think they should have.

By Mr. Crestohl:

Q. What do you mean by the term "making a rate"?—A. Setting a rate, or determining a maximum rate.

By Mr. Macnaughton:

Q. Mr. Chairman, on page 17 of the brief at the beginning it says, "In the post-war period there has been a constantly increasing demand for consumer loan service from salary and wage earners..." What about borrowers who have seasonal employment, such as fishermen, lumbermen, and farmers to a certain degree? What would you think if the act provided for periodic payments instead of monthly payments? Would that be any help or would it be possible? I am thinking of seasonal employees who only work for certain months in a year, who naturally find themselves in a difficult position in respect to making monthly payments.—A. I feel that it would be most helpful to the borrower. We should also, I think, be completely honest and state that this does leave a bit of a loophole to be used as a device possibly in defeating the purpose of the act. However, I do not think that it is impossible to take an approach to this thing. For instance, in the Income Tax Act we have special considerations for farmers, fishermen and other people employed in a seasonal capacity. It would be most helpful to the borrower, and it certainly would make a manager's job in a loan office much simpler, if there were some clearly defined policy, and possibly some adjustment in the statement of rates or the availability of seasonal loans to those people who cannot make regular monthly payments such as industrial workers.

By Mr. Huffman:

Q. On page 17 I notice that it says, "Lenders have responded by opening branches in many communities in order to meet this demand." I know there has been reference previously to clustering of offices. Would you like to comment on that, Mr. Cawker?—A. With your permission, Mr. Chairman, there has been a reference, I agree, to the clustering of offices. It has something to do with advertising, and with your permission may I refer this question to Mr. Oakes.

The CHAIRMAN: Yes.

Mr. OAKES: This so-called clustering of offices results from the natural desire of business to locate its offices wherever it will be most convenient to permit the best service to the customer. Lenders are not unique in this respect. It is common to all types of business. Take the banks, insurance agencies, grocery stores, department stores and all other types of business. I think it is clearly demonstrated by the number of shopping centres which have sprung up across the country in recent years, and very frequently more than one of each type of shopping centre. In fact, there are cases where whole shopping centres have been located in close proximity to existing shopping centres, simply because people like to do their shopping and business as near as possible in one convenient location. All the lenders who are interested in establishing in any community naturally establish at these central points. In checking the Ottawa telephone directory we find 129 insurance agencies; 27 of these are located on Sparks street. It is just good business practice that they should be where the customer can get to them easily and conveniently and obtain the service which he needs.

By Mr. Huffman:

Q. Then, further, it says, "They have also added units as required..." It has been said that too many offices might tend to encourage people to borrow. Do you feel that that is true?—A. I do not think so, sir. Too many

shoe stores, for instance, do not make people buy too many pairs of shoes. I speak from my own company's experience that we open units when we arrive at a particular number of accounts. Usually where we find that in order to give good service to our customers, so that the people may be served quickly, it is necessary to open another unit, possibly quite nearby, just for the physical requirements of getting people in and not having them wait for an hour, or two hours, until they can be taken care of.

Again, it is just good business because, if we did not do that, possibly another company would make it more convenient for those people to get in. That has not always been the case. We keep a very careful record of the time a customer comes in and goes out of our office. We check it very closely to see that a person is not kept waiting unnecessarily. But in the old days it used to be that people would have to wait an hour, or two hours in some cases, at a busy lunch time. We think it is one of these intangibles of service which acts in the best interest of the borrower.

By Mr. Crestohl:

Q. Would that be the only motive? Would there not also be the expectation of attracting new customers?—A. Yes, sir. We hope to attract new customers.

Q. You would not open another centre solely for the purpose of accommodating existing customers?—A. In some cases we have done that. Of course, there are new customers who come into that office. The point is that you do not get the impulsive type of customer in this business. A man does not walk along a street, see a neon sign and say, "I will slip in and borrow some money." Families usually think it over. We know from our experience with them that they do a lot of discussing and planning; they do not rush to a loan office; they know about the 24 per cent per annum rate, and if they can obtain money elsewhere they will. It is not the impulse buying, as you may call it in some merchandise.

By Mr. Huffman:

Q. You spoke about "convenience and advantage" in connection with some of the small loans offices in the United States. What has been the experience under this type of legislation?—A. The "convenience and advantage" is a funny expression to use when you are reducing the number of licensees perhaps. This convenience in my interpretation covers these various things which I have mentioned; being conveniently located for the customer, for instance. But by limiting the number of licensees, I do not know how this really acts to the borrower's convenience. It is possible that he may live at the west end of town, and have to go to the east end in order to get the money, whereas he could, allowing the economic and competitive factors of business to come into play, have an office possibly a few blocks from his home.

As to the experience in "convenience and advantage" states, as they call them in the United States, I have a booklet here which gives some pertinent figures on "convenience and advantage". We find that the present dollar outstanding per capita of population in the United States, with the so-called "convenience and advantage" law, is \$13.87. In the states without the "convenience and advantage" law they have a per capita outstanding of \$13.83. I do not think there is very much difference in those figures. Again, you do not have that same "convenience and advantage" restriction in the field of the banks or the credit unions. We would not approve of it in that field any more than we approve of it in our own field. We believe that businessmen should be permitted to serve the customer to the customer's very best advantage. We think that business will serve the customer to the best of the customer's convenience if it is allowed to open offices wherever the businessman decides he can stay and make a living.

Q. Then, did I understand you to say that you did or that you did not think that more offices would tend to promote more borrowers?—A. No, I do not think that more offices tend to encourage people to borrow.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, I am interested in your suggestion that one of the reasons for the expansion of the money-lending business has been the higher salaries and wages. It would seem to me that with higher salaries and wages people might be able to finance their own requirements without borrowing. Particularly I have in mind a country which is usually considered to have about the lowest per capita income, namely India, where the money-lender, sitting under the banyan tree, has been a feature of the landscape. I am not suggesting that you are sitting under the banyan tree. I do not understand how higher salaries and wages, if they are real higher salaries and wages, can increase the necessity for borrowing.—A. Of course, with respect to your reference to India, I do not believe that they have any workable small loans legislation.

Q. No; they have some very hard working money lenders though.—A. To get back to more practical considerations and to answer your question as to why, in view of the increasing salaries and so on, there is an increase in the business, I would simply say this: that people are willing to commit a wise portion of their future income to raising their standard of living under conditions of stable employment and good wages.

Q. I do not know how people can raise their standard of living above their effective income.

The CHAIRMAN: They get it more quickly. Is that not the situation?

The WITNESS: The fact remains that because of these very conditions which you have mentioned, people are better able to meet their obligations and lenders are thus more willing to extend credit. As I said before, I am not an economist, but it is rather peculiar that, if you take three countries, the United States, Canada and Great Britain, I have heard it said—I will not claim any pride of authorship in the statement—that the people of the United States have the highest standard of living in the world, and I think it is fair also to say that Canada has the second highest standard of living in the world, and I think that probably Great Britain is very close to a pretty firm third position. Now, relate that to instalment credit, and the ratio is maintained. The United States has the highest instalment debt per capita, Canada has the next, and I believe Australia and Great Britain are just about even, with 20 pounds per capita. You would expect me to agree with you that if you cannot buy a car on one week's wages you cannot buy it at all, or to have the necessary qualities of self-discipline that you can take away a certain amount each week until you have enough to buy a car. And then, quite frankly, I do not know what happens to the car and the appliance manufacturers, because they will be the first to agree—and the economists will be the first to agree—that the ability to build a careful plan from income and to apportion it and to keep your commitments is, frankly, what keeps people working.

By Mr. Huffman:

Q. In your last paragraph it says:

While statistics are useful as a yardstick, the experience gained by lenders in their day-to-day dealings with customers, fills an essential role in gauging the requirements of borrowers and the industry which serves them. It is the sum of this experience together with the statistical record which provides the basis of this Association's submission.

What I would like to ask you is this: how far in advance can your officials determine the economic trends so that you will know what money you will

need to meet the demand for that money from the borrower?—A. I do not think my answer would be a very good one because my experience has been that I am always faced with the problem of raising money. So, on a little more stable basis, with your permission, I would like to refer the question to Mr. McClure who spends a great deal of his valuable time in meeting that problem. May I refer it to Mr. McClure?

The CHAIRMAN: Yes.

Mr. Donald F. McCLURE (*First vice-president, Household Finance Corporation (U.S.A.)*): Mr. Chairman, I would like to say that the companies in the United States are beginning to have the same trouble, namely, we are beginning to see the end of our ability to keep on trying to decide upon the amount of money that it has been possible to obtain up to this time. I do not say that the end is near, but the possibility is rising. The fact is that the ability to get it in, in time, is becoming more difficult. The business itself is getting so large and the demand is continuing to mount—I refer to the loans business—and coming at the very same time when other industries, manufacturing companies and governmental agencies are coming into the market demanding money. The result is that sources of capital are not even as plentiful as they were, relative to the demand.

Now, coming directly to your question: it was, if I remember correctly, in anticipating our financial needs, how far in advance can we see? Not very far; perhaps easily, six months; with greater difficulty, a year; beyond that, we are only guessing at trends; and as these factors can enter the picture they will alter the trend with the end of a twelve month period.

Why is that so? That is so because the demand for instalment cash credit, which is distinct from instalment sales credit, is somewhat different; it rests fundamentally upon millions of decisions being made in individual families as they sit around the supper tables in Canada and the United States. They are the kind of people who come to us and say: "Now, shall we fund these debts which we owe, let us say, to the coal dealer, to the merchant, to the landlord, which have become embarrassing to us, because of some interruption in our income? Shall we fund these debts into a single obligation with a creditor who is willing to carry us and pay him off out of our ability to pay, or shall we continue to hold them all, involuntary creditors that they are, until we can find ourselves in a better position?"

Now, the decision to fund and come to an instalment cash level is, curiously enough, made more often in conformity with their feeling that employment is secure, and they are confident that their pay envelope or salary will continue into the future. Then and then only does the average Canadian—and to some extent the average American, say "I am willing to obligate my future earning power", and he will therefore give his promise to pay. So the demand for cash credit is peculiarly dependent upon a certain psychological factor, and that factor can change very quickly, and it has changed very quickly.

A dramatic example of it was during the war. This is an exaggerated example, but it is symbolic of what I am trying to say.

At the start of the war in Canada in 1939—and then in the United States in 1941—the demand for this business almost dried up overnight because of the sense of insecurity; people did not want to obligate themselves. It is true that the lender also began to be a little more cautious; but it was not very long until the lender was more than eager to lend, and he could not find a borrower. That was true in the United States in 1953.

I am sorry that I cannot give you any example more recently in Canada because I am not well enough acquainted with it; but in 1953 we had a tightening on the part of our "Federal Reserve Board" of credit in allowing people to keep employed, and the result was unemployment which commenced in August or September of 1953 and continued until well into the Spring of 1954.

The demand for cash credit in the United States also let up, but it did not dry up; however, it did let up. Consequently in the earlier months of 1954 the company which I represent received an outstanding supply for a few months. And the converse of that is true today, with my answer to some other question asked as to why it is that the demand for this cash credit increases when times are good?

It has always been so. I have been in this business for thirty years, and my company goes back beyond that time. Ours has always been a cyclical business, increasing with employment and good times, and curiously enough decreasing as people are laid off and as times are hard. That is contrary to what many believe. Why is this true? It is true because the average common man, the human being who does business with us, is a very thrifty handler of his affairs. I have great respect for the way in which he uses credit.

To come back now to the current situation, the demand in the United States and Canada since the beginning of the second quarter of 1954—there was no let-up in Canada, but in the United States since the second quarter of 1954, and prior thereto in Canada, there has been an increasing trend; I do not want to say it has been increasing every month, but there has been an increase in our outstandings—an increase over that amount, and the repayment trend is continuing, and it is continuing up to this moment of time. My believe would be that when the steel strike is settled many of these problems, which are currently before us, will be settled. People will continue to be well employed and feel secure in their jobs. When they are, then they come to the point where they have to make a loan and are willing to come to us to make it.

Now, remember this also about cash credit as distinct from sales finance—the reason people need cash credit as distinct from sales finance, which is usually to buy an automobile, or furniture or household equipment, and the credit is granted at the point of merchandising; in fact, the credit is a tool of the vendor. But there are a great many things which people need, in connection with which there is no creditor at the point where the vending is taking place, where he can get credit. A family suddenly finds itself confronted with the expense of moving to a new job, or paying medical, or dental or hospital bills, or assistance to consolidate debts due to some temporary lay-off, which piled up and became embarrassing; and he is now back and wants to consolidate them and get them paid. Now, when that happens the man says, if times are good, “I will go to a cash lender and get the money”. That is where the demand comes from.

Now, you have the difference between that and sales finance. There are two differences, and it is quite important to keep them in point of view. From the social aspect the one is that the things he needs, when he comes to the cash lender, are usually intangible. I have been giving you some examples—doctors, hospitals, and so on. Now, those things have great value to the consumer. The importance to a man of his restoring his health and his availability to a job, holding his family together during a period of interrupted earning power, or taking care of his responsibilities to people he cherishes, can be most important things to him. If he is unable to make a payment to the man from whom he borrowed the money, those things have no value to the lender at all. So the result is that cash instalment lending is a very expensive and very difficult type of business to handle.

The other factor about this type of business which gives it special social significance is the fact that the reasons he has to borrow the money are usually urgent. You see, the things that arise from merchandising are very often postponable. We may want a car or a new refrigerator, but they can be postponed. But when a man is confronted suddenly with an inadequacy which has to be supplied, or a hardship to be relieved, his choice literally is between

cash credit or privation. So, those two factors urgency and intangible value, are what makes this type of business, which gives it its important social significance, and are the reasons you gentlemen are considering it today.

Those things can happen even in good times to the individual family. They do not happen to all families at the same time, but any one family is likely to run into one of these emergencies in good times as well as bad. In good times he will make use of it, and in bad times he may elect to take privation. So, when you say to me: how do you tell, how do you foresee the future for raising your money, and what time is good, my judgment would be that these decisions will be in favour of using cash credit. Therefore we had better well-know where we are going to get the cash to meet the demand which is surging up into our branch offices now.

The alternative is to say to these people, "We are sorry; we cannot make you a loan". But it is foolish to try to guess at much beyond six months or a year in advance.

Did I answer your question in a thousand words? I am sorry.

Mr. HUFFMAN: I take it then that you consider it, from the statement you just made, that in the foreseeable future, that is for the six to 12 months upon which you base your judgment, you can see no change from the present position.

Mr. McCLURE: I see no change in the trend at the present time, sir, particularly in pattern.

The CHAIRMAN: Any further questions on this section, gentlemen?

By Mr. Follwell:

Q. Mr. Chairman, there was just one line I would like to draw to the attention of the witness and to ask his comments on it, and that is the paragraph on page 17 that says: "To meet the changed conditions, members of this Association have been aware for some time that, if the Small Loans Act is to maintain its effectiveness—", and this is the point I want to ask the witness about: "...certain provisions should be amended." Now, Mr. Cawker, what do you mean by that statement, and that word "amended"?—A. I will be dealing with most of them, Mr. Follwell, as we proceed to "loan ceiling", and of course, coincidental with "loan ceiling" there must be some consideration of rate, and one of the small matters that we have not dealt with particularly in our brief would be possibly the change of name for this act. We, of course, already have discussed the matter of limitations about where we are permitted to raise capital, and I feel that, of course, the maturity of the loan, both in the field now covered by the regulations of the act of 1939, and of course, in the field which we are recommending now, should come under the jurisdiction of the act.

Q. And when you speak about the term, it is the length of the term that is permitted for the borrower to pay back?—A. Yes. We would like to see the loan—I believe we touched on it briefly this afternoon—the maturities in the field up to \$400 or \$500 extended to 20 months, for the convenience of the borrower. We feel that in keeping with other instalment finance trends there should be an extension, a considerable extension of maturities in the higher fields—that is, the field outside of those now covered by the act.

The CHAIRMAN: Any further questions, gentlemen? If not, we will move on to the next section, "loan ceiling" at the bottom of page 17.

LOAN CEILING

The present ceiling under the Act is \$500. Any increase will be solely for the protection of borrowers, since it will extend the area of regulation and supervision. At present, lenders are not limited as to rate of charge or period of repayment on loans over \$500.

That there is a great need for cash credit over \$500 is indicated by the following figures:

BALANCES OF LOANS OUTSTANDING—DECEMBER 31, 1954

Small Loans Companies and Licensed Money-Lenders

Year	Loans Under \$500	**Loans Over \$500
1954.....	\$88,822,891.00	\$117,384,849.00

**Includes figures for Household Finance Corporation Ltd.

The 1954 report of the Department of Insurance emphasizes this trend toward larger loans by pointing out that the balances of small loans increased only 15 per cent between year-end 1952 and 1954, while balances of large loans made by licensed lenders increased 76 per cent.

This is not surprising since Dominion Bureau of Statistics reports show that personal disposable income has risen from \$4.8 billion in 1940 to \$18.3 billion in 1955—a 281 per cent increase. In the same period, weekly wages have risen from \$24.94 to \$61.99—a 148 per cent increase.

Most consumer loan customers today have the same characteristics as those whom the act was originally designed to protect, but many of them now require larger loans to satisfy their needs.

While the majority of borrowers requiring loans above \$500 use the services of lenders licensed under the Small Loans Act, some are at present being served by unlicensed lenders who commence their activities at \$501 and therefore are not required to meet the qualifications of experience, character and general fitness required by the Act.

Of course, by unlicensed lender we mean an individual or company who does not hold a licence under the Small Loans Act or make loans below the \$500 limit. Amending the act would eliminate this undesirable situation, curbing the possibility of abuses in the making of larger loans.

In view of these conditions, we support the proposed increase in the loan ceiling, provided that rates of charge permitted are sufficient to attract the necessary capital to service the extended area.

RATE OF CHARGE

The Canadian Consumer Loan Association believes the rates in Bill 51 are too low.

Had the rates in Bill 51 been in effect for the years 1954 and 1955, the earning power of the industry as a whole would have been reduced from a 6.2 per cent return on assets employed to 4.5 per cent. Of course, that is before interest on borrowed money. This is an average for all lenders. If from the figures are subtracted six of the companies which are known to be subsidiaries of other companies, the earning power of the Canadian independent companies would have been reduced in 1954 from 4.2 per cent on assets employed to 3.2 per cent and in 1955 from 3.6 per cent to 2.5 per cent. This is too severe a reduction; the purpose of the legislation is defeated when the rate is reduced to the point where commercial capital will not undertake to supply the demand.

To test this conviction, this association engaged Deloitte, Plender, Haskins & Sells, a leading firm of independent chartered accountants, to analyse the

reports of the industry and recommend a basis of measuring its earnings. They were also asked to estimate the effect upon the industry's earnings of the proposed changes in rates of charge set out in Bill 51. Their report follows this section.

This independent report forms part of this submission. The chartered accountants have recommended that earnings be stated as a percentage of assets employed in the business. Earnings are taken as the gross income earned less all expenses other than interest on borrowed money (with appropriate income tax adjustment). They estimate that the rates proposed in Bill 51 will reduce the earnings of the industry as follows:

In 1954 all companies had assets employed of \$213,969,868. Six of the known subsidiaries—that includes, of course, the American subsidiaries and the Canadian subsidiaries of known parents—\$184,305,629, and the remaining companies, which, I think, could be termed the Canadian independent companies, \$29,664,239. Earnings for all companies amounted to \$13,310,312; for six of the known subsidiaries, \$12 million odd, and for the remaining companies, \$1,252,344. Earnings expressed as a percentage of assets employed were, for all companies, 6·2 per cent; for six of the known subsidiaries they were 6·5 per cent, and for the remaining companies, 4·2 per cent. With the earnings adjusted to the rates proposed in Bill 51 the earnings of all companies would be reduced to \$9,700,000 odd—

By Mr. Fleming:

Q. I was wondering, Mr. Chairman, whether it was necessary to read the figures when they are in the tables. They will go into the record anyway.—

A. These figures are all important to us, Mr. Fleming.

Q. I quite realize that, Mr. Cawker.

The CHAIRMAN: I do not know how Mr. Cawker can emphasize his point without using his figures. Those other tables were not of such consequence—this is the meat of his argument, is it not?

Mr. FLEMING: I realize it is the meat of the brief.

The WITNESS: With earnings adjusted to the rates proposed in Bill 51, there would be a reduction from \$13 million in the case of all companies to \$9 million; for the known subsidiaries a reduction from \$12 million to \$8 million; and for the remaining companies a reduction from \$1,200,000 to \$941,000. The adjusted earnings as a percentage of assets employed would be as follows: for all companies, 4·6 per cent; for the known subsidiaries 4·8 per cent and for the remaining companies 3·2 per cent.

In 1955—and I will try just to hit the highlights; I know that these figures are before you—we see a reduction of earnings for the 41 reporting companies from \$15,969,273 to \$11,635,678 and for the remaining companies from \$871,000 odd to \$611,000 odd. I should point out that these figures do not include the losses of one company which commenced operations during 1955. We show here a reduction of earnings as a percentage of assets employed from 6·2 per cent for the 41 reporting companies to 4·5 per cent; from 6·6 per cent in the case of the known subsidiaries to 4·8 per cent; and for the remaining companies, from 3·6 per cent to 2·5 per cent.

	All Companies	Six of the known Subsidiaries	Remaining Companies
1954			
Assets Employed	\$213,969,868	\$184,305,629	\$ 29,664,239
Earnings	13,310,312	12,057,968	1,252,344
Earnings as a % of Assets Employed	6.2%	6.5%	4.2%
Earnings Adjusted to the Rates Proposed in Bill 51	9,761,464	8,820,392	941,072
Adjusted Earnings as a % of Assets Employed	4.6%	4.8%	3.2%
	Forty-one Reporting Companies	Six of the known Subsidiaries	Remaining Companies
1955			
Assets Employed	\$255,829,112	\$231,150,498	\$23,994,172*
Earnings	15,969,273	15,183,807	871,134*
Earnings as a % of Assets Employed	6.2%	6.6%	3.6% *
Earnings adjusted on the Rates Proposed in Bill 51	11,635,678	11,116,754	611,771*
Adjusted Earnings as a % of			
*These figures do not include the losses of one company which commenced Assets Employed	4.5%	4.8%	2.5% *
operations during 1955.			

Concern has been expressed that so much of the capital employed in the instalment cash lending business is United States' capital. Canadian capital has been reluctant to enter the business when the permitted rates of charge produce over-all earnings of approximately 6.2 per cent on assets employed. How much more reluctant it will be if earnings are reduced to 3.2 per cent or 2.5 per cent. Special risks in this business must be recognized:

There is the legislative hazard. Capital fears legislative reduction of the rate to a point that would cause it to withdraw with the losses which accompany the liquidation of a business.

With a fixed limit on charges and no opportunity to multiply profits through turnover, the consumer loan business permits only reasonable earnings. In other words, the lender's gross return is tied to a percentage rate coupled with a burden so that his return does not increase through making more loans unless he also increases the numbers of dollars outstanding. The retailer is not so limited; by improving his turnover, he can make more sales with the same amount of capital and thus increase his return. It does have compensating stability, but even this is being undermined by continually rising costs. As the gross price is fixed, expansion of profits is strictly limited.

There is risk of substantial increase in bad debt write-offs. Whilst current write-offs for bad debts in Canada have been relatively small, it has been far different in the United States. In the 27 years from 1929 to 1955, the write-off of one large company has averaged 1.30 per cent annually and in 1933 that company was obliged to write-off 6.57 per cent of its total loan balances. In 1934 the write-off was 5.22 per cent. The trend in Canada is inevitably towards a higher average loss experience as the business matures.

Such hazards and contingencies in conjunction with the comparatively low rate of return has made Canadian capital seek other employment. The

prospect of a lower return will be a further discouragement to the investment of Canadian capital. While a 6.2 per cent average over-all rate of return was sufficient to attract United States' capital in 1954 and 1955, a substantial reduction in earnings may well operate in reverse.

At this point I would like to interject, if I may, that there have been substantial indications to this association of the number, not only of small Canadian companies, who may be forced to liquidate their small loans business. I believe the question was asked of Mr. MacGregor as to his opinion concerning how many companies would as a result of a reduction of rate, flee this business. I think that the statement was made by at least one of the small loans companies, that is, one of the four incorporated under dominion act, that under the rates of Bill 51 they could no longer continue to serve the field.

I submit to you also that in the case of the large American companies—I cannot speak for their policies—I think I can take an average business man's view of a yield reduced to the point where the rate in Bill 51 would reduce it, and to a point which would leave their capital employed in this business with all the inherent risks—and at the same time we should also consider the fact that the largest lender does not serve the field over \$1,000, and the second largest company, I believe, has a top loan of \$1,200. Now, the Canadian companies who have been a little bit late in getting into this business, I admit, have been serving the need as it exists in that field. They will not be able to continue to serve it. I have had no assurance nor advice whatsoever from the two large American companies that they have any intention whatsoever of increasing their limits, at a reduced rate together with all the inherent risks which go along with increasing the limits placed on their loan, from, let us say, \$1,000 to \$1,500.

To continue—it has been said that relating the earnings of the industry to assets employed is not the full story—that lenders are motivated by what they earn on invested capital and surplus. This statement ignores the following facts:

On December 31, 1954, reports of all companies showed \$40,740,608 of invested capital and surplus and \$170,056,702 of "borrowed money".

This is a ratio of "borrowed money" to invested capital and surplus of 417.4 per cent. Within this group the 59 independent Canadian companies that obtained their borrowed capital from outside sources under arm's-length conditions, averaged only \$2.58 of borrowed capital for every \$1 of invested capital and surplus.

In contrast, six companies included in the group that are subsidiaries of larger parent companies "borrowed" from these parents in ratios of \$4.53 for each \$1 of invested capital and surplus. None of the subsidiaries could borrow in ratios of \$4.53 to \$1 in arm's-length transactions from outside sources. Rather they are dependent upon their parent organization for capital advances in the form of loans.

However, these parents in turn must borrow from outside sources in arm's-length transactions similar to those of the 59 independent companies and on borrowing ratios that are similarly restricted to realistic proportions.

The excess in borrowing by the subsidiary companies over an average ratio of \$2.58 to \$1 represents a substantial investment by the parent companies carried in the form of debt rather than of stock.

Mr. FOLLWELL: Mr. Chairman, I cannot hear the witness on account of the clock striking 10 o'clock.

The CHAIRMAN: It is 10 o'clock. If there was only another paragraph we would continue, but there are several pages of this, and I think we should wait until the next meeting to complete this section. Would the members of the steering committee please remain?

Dec Canada Banking and Commerce
Standing Committee on 1956
HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

—
STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

—
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 22

—
BILL 51

An Act to amend the Small Loans Act

—
TUESDAY, JULY 31, 1956

—
WITNESSES:

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, and
Mr. Clem L. King, F.C.A., Chartered Accountant.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Gingues	Pallett
Ashbourne	Gour (<i>Russell</i>)	Philpott
Balcom	Hamilton (<i>York West</i>)	Power (<i>Quebec South</i>)
Batten	Hanna	Rea
Bell	Henderson	Regier
Benidickson	Hollingworth	Robichaud
Blackmore	Holowach	Rouleau
Cameron (<i>Nanaimo</i>)	Huffman	St. Laurent (<i>Temis-</i> <i>couata</i>)
Carrick	Knight	Thatcher
Crestohl	Low	Tucker
Deslieries	MacEachen	Viau
Enfield	Macnaughton	Vincent
Eudes	Matheson	Weaver
Fairey	Meunier	White (<i>Hastings-</i> <i>Frontenac</i>)
Fleming	Michener	White (<i>Waterloo South</i>)
Follwell	Monteith	
Fulton	Nickle	

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, July 31, 1956.

Ordered,—That the name of Mr. Argue be substituted for that of Mr. Stewart (*Winnipeg North*) on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, July 31, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Benidickson, Cameron (Nanaimo), Deslieries, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Hollingworth, Holowach, Hunter, Knight, Low, Macnaughton Michener, Monteith, Pallett, Philpott, Power (Quebec South), Regier, St. Laurent (Temiscouata), Tucker and Weaver.

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); Clem L. King, F.C.A.; senior Toronto partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants, and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Sixth Report of the Subcommittee on Agenda and Procedure, as follows:

Your Subcommittee met at 10.00 o'clock p.m. on Thursday, July 26th and agreed to recommend:

That the Committee continue its consideration of Bill 51, An Act to amend the Small Loans Act, at sittings as follows:

on Tuesdays at 3.30 and 8.15 o'clock p.m.,
on Wednesdays at 3.30 o'clock p.m., and, if the House sits on those evenings, also at 8.15 o'clock p.m., and
on Thursdays at 3.30 and 8.15 o'clock p.m.

Respectfully submitted.

Following debate the Sixth Report of the Subcommittee was adopted.

The Committee agreed that representations of Canadian Consumer Loan Association be completed not later than at the end of the first sitting on Thursday next; and that immediately thereafter other briefs and representations be heard, followed by consideration of the bill, clause by clause.

Mr. Cawker was again called; he continued the presentation of the brief of his Association, was questioned thereon, and was retired.

Mr. King was called; he presented that portion of the brief of Canadian Consumer Loan Association which had been prepared by Deloitte, Plender, Haskings and Sells, Chartered Accountants; and was questioned thereon.

Mr. King being still before the Committee, and the division bell having rung to summon Members to the House, at 5.27 o'clock p.m. the Committee adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Cameron (Nanaimo), Deslieres, Eudes, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Hollingworth, Holowach, Hunter, Knight, Monteith, Pallett, Philpott, Power (Quebec South), St. Laurent (Temiscouata), Tucker and Weaver.

In attendance: The same as at the afternoon sitting.

Mr. King continued his evidence and was questioned thereon.

Mr. King being still before the Committee, at 10.00 o'clock p.m. it adjourned until 3.30 o'clock p.m. on Wednesday, August 1, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 31, 1956
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Your subcommittee on agenda and procedure begs leave to present its sixth report. (*For report, see Minutes of Proceedings of this day.*)

All those in favour of adopting this report.

Mr. FLEMING: Just a moment, Mr. Chairman. The report, of course, is not unanimous, as members will appreciate after discussions here last Thursday evening.

Mr. Monteith, Mr. Cameron and I urged the agenda committee, as we had urged the main committee earlier the same evening, to inaugurate a program of eight meetings a week, commencing at once. That was rejected and the agenda committee is now recommending that the committee sit five or six times a week, that difference depending upon whether the house sits on Wednesday evenings or not.

The CHAIRMAN: Which it does.

Mr. FLEMING: Has that been decided upon?

The CHAIRMAN: Yes.

Mr. FLEMING: Then the difference between the report of the subcommittee and the views that the opposition put forward is the difference between six meetings a week and eight meetings a week. Having regard to the fact that there seems to be evidence of an attempt to speed up in the house, and that the end of the session becomes closer all the time, I think it is not unreasonable that we should advance our meetings to eight per week.

The CHAIRMAN: Are you speaking on this report?

Mr. FLEMING: Yes, Mr. Chairman, I am going to move an amendment—

The CHAIRMAN: To the report? How can you amend the report?

Mr. FLEMING: You are asking for a motion for approval of the report. You were ready to put the motion to increase the number of meetings in accordance with that report.

The CHAIRMAN: Yes.

Mr. FLEMING: I am moving an amendment now.

The CHAIRMAN: The motion is to concur in the report.

Mr. FLEMING: I am moving an amendment, Mr. Chairman, that the committee proceed to hold eight meetings per week, two on—

The CHAIRMAN: You cannot change the report. If you wish to move that after the report—

Mr. FLEMING: No, Mr. Chairman.

The CHAIRMAN: Or, if you wish to vote against the report—

Mr. FLEMING: Mr. Chairman, this is the practice in these cases. You were putting to the committee a motion that the—

The CHAIRMAN: To concur in the report.

Mr. FLEMING: That the report be concurred in. Now, I am proposing that we shall not concur in the report, but that the committee proceed to hold eight meetings per week forthwith.

The CHAIRMAN: Mr. Fleming, that is nothing but a negative motion. If you wish to vote against concurring, and then to move a new motion, that is your privilege.

Mr. FLEMING: No, with respect, Mr. Chairman, that is quite wrong. This is the method used all the time in these committees in taking issue with reports of steering committees. What is the sense of voting against your motion and then after the motion is adopted—

The CHAIRMAN: Because you cannot change the report.

Mr. FLEMING: Mr. Chairman, we may not be able to change the report, but you are putting a motion for concurrence.

The CHAIRMAN: Yes.

Mr. FLEMING: I was moving an amendment that the committee do not concur in the report of the steering committee, but that the committee do now decide to hold eight meetings per week: two on Mondays, two on Tuesdays—we will make it nine now since we are sitting on Wednesday night—two on Mondays, two on Tuesdays, two on Wednesdays, two on Thursdays, and one on Friday. Now, none of us likes as stiff a program of meetings as that but, to finish the work that has been assigned to us, it seems to me that it is necessary, and our responsibility, it seems to me, is to report this bill in time for action by the house and the Senate at this session. It is not likely to be discharged unless we do press ourselves for this substantial increase in the number of meetings we are now holding, and I move accordingly, Mr. Chairman.

The CHAIRMAN: That is really a superseding motion you are making, Mr. Fleming.

Mr. FLEMING: This is an ordinary motion.

The CHAIRMAN: Is there a seconder for that?

Mr. FLEMING: We do not need a seconder in committee—standing order 59.

The CHAIRMAN: All those in favour of Mr. Fleming's motion—

Mr. FULTON: A recorded vote.

Mr. FLEMING: Yes, I think we ought to have this recorded, please.

The CHAIRMAN: It seems to me that in view of the fact that we are very far behind on this, that this is a motion which can well be acceded to by all of the committee. The fact is we must get this thing through, and we must get it through quickly. After the motion is over I am going to suggest to the committee how we can get it over quickly.

Mr. TUCKER: If I might be permitted, Mr. Chairman, it seems to me that this is more or less of an academic discussion, because, after we meet, as is agreed, twice tomorrow, and twice on Thursday, if it is quite clear we are not going to get our report in in time for the bill to go through the house, the whole committee will want to meet still oftener than we have already agreed to meet. So, it seems to me that we are taking a division about something that is very academic. Everybody agrees that we should meet again tonight, and everybody agrees that we should meet at least twice tomorrow. Everybody agrees we should meet at least twice on Thursday. Now, I am quite sure, Mr. Chairman, that if, by that time the committee sees that it is not going to be finished its work in time for this bill to be acted upon in the house, our committee will be quite prepared to meet oftener than is now envisaged. So, why should we spend time on this particular matter?

The CHAIRMAN: I might explain to Mr. Fleming that if necessary I am going to call three meetings a day.

Mr. FLEMING: I hope you will, Mr. Chairman; I hope you will call them. But I have pointed out that the result of not passing the motion, as I introduced it in this committee last Thursday is that we have lost three meetings that we would otherwise have had. We lost one Friday and two yesterday. So, I think that this suggestion of mine should be dealt with now, and I would be very happy, Mr. Chairman, if further meetings are called to clean up this work. But I think we ought to be very sure while we are sitting here now that we are not going to lose the opportunity for meetings in the way that we have since Thursday.

The CHAIRMAN: I do not care if you put the motion or not; are far as I am concerned it is academic. Do you want the motion to go?

Mr. FLEMING: Yes.

The CHAIRMAN: All those in favour of the motion—

Mr. TUCKER: Mr. Chairman, I would move a further amendment to the amendment, that we meet as often as necessary to report this bill in time to be acted upon at this session of parliament.

Mr. HOLLINGWORTH: Carried unanimously!

Mr. CAMERON (*Nanaimo*): What is that again?

Mr. TUCKER: I move we meet often enough to get this bill reported in time to be enacted at this session of parliament, and that we do agree right now that we meet often enough, whether it is twice a day or three times a day, and that we meet in the mornings as well, if necessary.

Mr. FLEMING: This is a very refreshing statement to hear, and it is what we have been arguing for. As I pointed out, if that sentiment had been expressed last Thursday we would have been very much further ahead than we are at the moment.

Mr. PHILPOTT: Mr. Chairman, I support Mr. Tucker's amendment to the amendment. I think we should meet about six times, including on Saturdays, and in view of the fact that never before in history have Mr. Fleming and his colleagues been here for Saturdays, perhaps we might get through a lot of the work that we never got through before in the session.

Mr. FLEMING: Mr. Chairman, it is too bad that Mr. Philpott cannot tell the truth. I have been here on more Saturdays than he has on which the House sat.

The CHAIRMAN: Now, now—

Mr. KNIGHT: I would very much like to support Mr. Tucker's motion, but I do not think it is in order; because the fact that we are going to meet does not necessarily mean that the bill is going to be reported. As I understand it, the committee has been meeting for the last month, and we have not got ahead too far. The one thing is not contingent upon the other.

Mr. CAMERON (*Nanaimo*): Unless the government members are prepared to push it through, it will not go through.

Mr. KNIGHT: We have been going two weeks, night and day, but you cannot guarantee that the bill is going to be reported because we meet.

Mr. TUCKER: What I had in mind was to meet as often as we possibly can in order to get the bill reported in time to be acted upon.

Mr. FULTON: Mr. Chairman, I hesitate to advance anything that might take up more time, but I wonder if Mr. Tucker's motion is not out of order because it is indefinite and does not suggest any positive course of action, and so is not in order as an amendment to a motion which does suggest a positive course of

action? The one suggests nine meetings a week, and the other says we should meet as often as necessary. The whole point is that the opinion appears to be divided as to how often it is necessary. Therefore Mr. Tucker's motion, I submit, is morally all right, but literally has no meaning, and it is out of order for that reason.

The CHAIRMAN: I think the main reason it might have no meaning is that you people have not indicated when the session will end.

Mr. FULTON: We have indicated that we would like to sit nine times a week in this committee.

Mr. BENIDICKSON: It might not be that often.

Mr. FULTON: If that is not often enough, let us have somebody put forward a positive suggestion for more meetings.

Mr. BALCOM: Mr. Chairman, may I ask if we are racing to meet a certain date? I recall that last week we had a lot of child's-play over getting through, and today people are doing the same thing.

An hon. MEMBER: All from the Liberals.

The CHAIRMAN: The Liberals are not making these motions.

Mr. TUCKER: The Liberals have been working harder.

Mr. CAMERON (*Nanaimo*): They certainly have, very hard.

Mr. KNIGHT: They have had a change of heart.

The CHAIRMAN: There is an amendment here.

Mr. FLEMING: If Mr. Tucker will carry his suggestion to an appropriate point of specifying meetings we will be glad to welcome it, three times a day if necessary.

Mr. TUCKER: That is what I had in mind, Mr. Chairman.

Mr. FLEMING: Well, specify that in your motion then.

Mr. TUCKER: We do not know at this particular stage whether the meetings suggested by Mr. Fleming will get this bill through in time to be reported so that it may be acted upon, so I wanted to go further than Mr. Fleming and leave it in your hands, with the assistance of your subcommittee. If we found that, after meeting twice today and twice tomorrow, we were not going to get the bill reported in time to be acted upon, the subcommittee should then feel justified in instructing the chairman to arrange that we meet three times a day, and on Fridays, and three times a day, or twice a day on Saturdays. In other words the purport of my motion is to support what the subcommittee did, and say that the chairman should be authorized to go further than that, if necessary. Now then, if you want to be technical about these things and raise points of order, and so on, in order to carry out the view that the committee seems to have, that we should try to get the business through so that we can report the bill, then of course that is another matter. But I thought that we wanted to agree to meet as often as possible to get the bill reported in time to be acted upon. I felt that we should free the hands of the chairman, and if it seems clear that two meetings a day, as was envisaged, is not adequate, that he should be free to call three meetings.

Mr. KNIGHT: I think, Mr. Chairman, that if Mr. Fleming would withdraw his motion, and in accordance with the assurance that we appear to have from Mr. Tucker, that the business is going to be carried through expeditiously, we might watch things for a day or two. That will be for the best, and just leave it alone the way it is.

Mr. FLEMING: Mr. Chairman, will you indicate, in the light of what Mr. Tucker has said, that you are prepared to call additional meetings as required, even three in a day?

The CHAIRMAN: Mr. Fleming, you will have so many meetings you will not even like it. We are going to sit steadily on this, if necessary three times a day. You have my assurance on that.

Mr. FLEMING: We will watch, and then we can review the matter in a couple of days from now, and see just how many meetings are being called, in the light of what Mr. Tucker has proposed.

The CHAIRMAN: Will the report be concurred in then?

Mr. FOLLWELL: What is it, Mr. Chairman—if you would not mind reading it again?

The CHAIRMAN: It is the steering committee's report: that we sit twice on Tuesdays, twice on Wednesdays and twice on Thursdays.

Mr. TUCKER: It does not prevent us from having more meetings if necessary.

Mr. CAMERON (Nanaimo): It just adds the two Wednesday meetings to our present—

The CHAIRMAN: Yes. I have already stated to Mr. Cawker that in my opinion, and this is subject naturally to confirmation by the committee, in my opinion the brief of the Canadian Consumer Loan Association should be finished by the first meeting on Thursday of this week.

Mr. HOLLINGWORTH: You mean all the briefs, or just this one?

The CHAIRMAN: I mean the complete presentation of the Canadian Consumer Loan Association—which includes Mr. Cawker, Mr. King, Mr. Herington, Mr. Elliott and Mr. Picard—will be completed by the first meeting on Thursday of this week, if at all possible, and I think it is possible. That leaves us with the second meeting on Thursday either to hear any additional witnesses you may wish to hear, or to get on to the bill, depending on what the committee decides. I think that is possible; but I think it is only possible if the committee, recognizing the importance of making progress, restrains itself a little in its questions. I do not wish to dissuade anybody from asking questions which are vital in order to bring out some point which he feels he should bring out; but on the other hand, I think, possibly, that one question leads to another, sometimes more out of curiosity than from real necessity, and I do ask members of the committee to bear this in mind when they are questioning witnesses. Mr. Cawker has almost completed his evidence—he is at page 22 of the brief—and I would think we could get on with that very quickly.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

The WITNESS: With your permission, Mr. Chairman, I will begin at the second paragraph, if I may, in order to maintain continuity.

It has been said that relating the earnings of the industry to assets employed is not the full story—that lenders are motivated by what they earn on invested capital and surplus. This statement ignores the following facts:

On December 31, 1954, reports of all companies showed \$40,740,608 of invested capital and surplus and \$170,056,702 of "borrowed money".

This is a ratio of "borrowed money" to invested capital and surplus of 417.4 per cent. Within this group the 59 independent Canadian companies that obtained their borrowed capital from outside sources under arm's-length conditions, averaged only \$2.58 of borrowed capital for every \$1.00 of invested capital and surplus.

In contrast, six companies included in the group that are subsidiaries of larger parent companies "borrowed" from these parents in ratios of \$4.53

for each \$1.00 of invested capital and surplus. None of the subsidiaries could borrow in ratios of \$4.53 to \$1 in arm's-length transactions from outside sources. Rather they are dependent upon their parent organization for capital advances in the form of loans.

However, these parents in turn must borrow from outside sources in arm's-length transactions similar to those of the 59 independent companies and on borrowing ratios that are similarly restricted to realistic proportions.

The excess in borrowing by the subsidiary companies over an average ratio of \$2.58 to \$1 represents a substantial investment by the parent companies carried in the form of debt rather than of stock.

One cause of these unrealistic borrowing ratios is the limitation upon authorized capital imposed by the charters of the subsidiaries that are incorporated under the Small Loans Act. Only an act of parliament can authorize an increase in the amount of the authorized capital.

The measurement of net profit against these distorted and widely varying book figures of capital and surplus in such a situation produces a ratio which has no relationship to commercial reality. This is shown by the following figures. We have in the following table the figures of 65 reporting companies, bringing out the percentage of borrowed money to invested capital and surplus, mentioned earlier, of 417.4 per cent, and then we take off the six companies known to be subsidiaries—in all likelihood, as a matter of fact—involved in borrowing as between parent and child, and the total of these six companies percentagewise is 453.2; in other words, \$4.53 to every dollar of invested capital, and the net for the 59 remaining companies, you will note, is reduced to 257.7.

	Borrowed Money	Invested Capital and Surplus	% of Borrowed Money to Invested Capital and Surplus
65 Reporting companies ...	\$170,056,702	\$40,740,608	417.4
Less 6 companies known to be subsidiary companies			
Canadian Acceptance ..	67,675	463,895	14.6
Household Finance Corporation	93,390,343	12,840,361	727.3
Personal Finance	32,122,530	13,938,335	230.5
Blake Pierce Finance ..	1,769,000	276,188	640.5
Niagara Finance	15,750,000	4,945,899	318.4
Trans Canada	7,750,000	821,949	942.9
Total 6 companies	\$150,849,548	\$33,286,627	453.2
Net for 59 remaining companies	\$ 19,207,154	\$ 7,453,981	257.7

This financial structure is the result of the parent company's election to lend money to the subsidiaries instead of putting the money into capital stock of the subsidiary. There is nothing about this to criticize. It reflects convenience, flexibility, and the fact that the subsidiary's capital may be limited by charter restrictions; yet it throws the ratios into an unreal pattern.

The chartered accountants point out in their reports that the 1954 earnings of the industry as reported by the superintendent of insurance do not include provisions for losses which may be incurred on loans presently outstanding. In other words, if I may just explain, it has been the practice of the department in producing its annual report to the minister to take out as operating expenses those provisions for bad and doubtful accounts presently on the books, which,

of course, is approved by modern accounting procedures and also approved by another department of the government, the Department of Income Tax. If the net profit is adjusted to reflect provisions for bad and doubtful accounts, the net profit for 1954 would be \$9,616,735 rather than \$10,597,945. Relating such net profit to the invested capital and surplus of (1) all companies, (2) the six companies known to be subsidiaries, and (3) to the remaining 59 independent companies, shows the following ratios before and after the rate reductions proposed in Bill 51. (These figures have been prepared by Deloitte, Plender, Haskins & Sells):

1954	All Companies	Six Known Subsidiaries	Remaining Companies
Invested Capital & Surplus	\$40,740,608	\$33,286,627	\$7,453,981
Net Profits	9,616,735	8,840,458	776,277
Net Profits Percent of Invested Capital & Surplus	23.6%	26.6%	10.4%
Net Profits Adjusted to rates in Bill 51	\$ 6,067,887	\$ 5,602,882	\$ 465,005
Invested Capital and Adjusted Surplus	37,191,760	30,049,051	7,142,709
Adjusted Net Profits Per Cent of Invested Capital and Adjusted Surplus	16.3%	18.6%	6.5%

(1955 ratios are omitted as the invested capital figures are not available.)

The ratios of net profits to invested capital and surplus for the six companies known to be subsidiaries is artificially high because the lack of arms' length bargaining between the subsidiaries and the parent makes possible an artificially low amount of invested capital and surplus. No company could borrow on a commercial basis as large a part of employed funds as they do. This is reflected in the ratio of all companies since the six companies known to be subsidiaries comprise such a large part of the total. The last column, showing the earning ratios of the independent companies, reflects normal amounts of invested capital and surplus to employed funds and therefore, the realistic earning power of invested capital and surplus under the present rates and under the rates proposed in Bill 51.

Eliminating the 6 known subsidiary companies from the 1954 figures the net profits of the remaining companies were \$776,277 which was 10.4 per cent of invested capital and surplus. The rate reduction in Bill 51 would reduce such net profits to \$465,000 or a 6.5 per cent return on invested capital and surplus.

In our economy where good first mortgages yield $6\frac{1}{2}$ per cent, it hardly seems necessary to state that a 6.5 per cent return is inadequate on invested capital which is junior to borrowed money amounting to 2.58 times the invested capital.

The statistical summary of the Bank of Canada (November 1954) gives a summary of the financial statistics of 704 Canadian companies engaged in all fields of industrial activity, showing the following earnings on shareholders equity.

	1952	1953
Net income to shareholders	\$ 607,900,000	\$ 641,000,000
Shareholders equity	5,236,000,000	5,641,800,000
Net income as per cent of equity....	11.6%	11.4%

As this series of statistics has been discontinued by the Bank of Canada more recent figures on a comparable basis are not available.

The following were calculated from information included in the Financial Post Survey of Industrials—1955. It is a reasonable cross-section of the Canadian industrial economy and you will note that we have a range from a low of 15.25 to a high of 38.50 per cent.

Company	Percentage Return on Invested Capital and Surplus for the 1954 Fiscal Year
Easy Washing Machine Co. Ltd.	18.10%
Loblaw Groceries Co. Ltd.	18.98
Canada Safeway Ltd.	22.47
Bird Construction Co. Ltd.	15.86
Standard Paving & Materials Ltd.	21.86
Catelli Food Products	19.08
Universal Cooler Ltd.	16.91
Industrial Acceptance Corporation Ltd.	16.69
Gypsum Lime & Alabastine Canada Ltd.	16.43
Toronto Brick Co. Ltd.	32.42
Quebec Telephone	15.25
Superior Propane Limited	15.50
General Bakeries Ltd.	15.76
Consolidated Mining & Smelting Co.	16.17
Asbestos Corporation Ltd.	20.83
Canadian Tire Corp. Ltd.	19.64
St. Lawrence Corporation Ltd.	16.89
Kerr-Addison Gold Mines Ltd.	38.50

The following percentages were calculated for 6 companies whose 1955 annual reports are available:

They range, you will note, from a low of 15.37 to a high of 22.70 per cent.

Company	Percentage Return on Invested Capital and Surplus for the 1955 Fiscal Year
International Nickel Company	22.70%
Steel Company of Canada Ltd.	16.16
Building Products Ltd.	15.51
Canada Cement Co.	16.34
Peoples Credit Jewellers Ltd.	15.37
Interprovincial Building Credits Ltd.	17.31

With the exception of the figures appearing in paragraph 4, page 21, all figures in this section are taken from reports certified by Deloitte, Plender, Haskins and Sells dated March 12, March 19 and April 5.

The rate recommendations which wind up my presentation, Mr. Chairman, will be found on the last page of the brief, if I may read it now. Then I will ask Mr. King to present his submission.

RATE RECOMMENDATION

It can be seen that the rates proposed in Bill 51 would reduce the earnings of lenders to an unreasonably low level in relation to industry generally and would have a particularly adverse effect on the earnings of the Canadian independent companies.

This result would in turn, adversely affect the service presently available to Canadian families.

Generally the current charge for all loans is 2 per cent per month for loans under and over \$500.

We recommend that consideration be given to amending Bill 51 to the following rates:

- (a) two per cent per month on any part of the unpaid principal balance not exceeding five hundred dollars,
- (b) one and one-half per cent per month on any part of the unpaid principal balance exceeding five hundred dollars but not exceeding one thousand dollars, and
- (c) one per cent per month on any remainder of the unpaid principal balance exceeding one thousand dollars.

This results in a 25 per cent reduction in the rate on the portion of any loan balance between \$500 and \$1000 and a 50 per cent reduction between \$1000 and \$1500.

By Mr. Macnaughton:

Q. Mr. Cawker, would you refer to the bill, paragraph one, which is really a provision against the sale of credit insurance—at least that is envisaged in the proposed amendment. Would you tell us whether you, as an individual or as head of your association, agree with that amendment?—A. We have not dealt with insurance in the brief of the association. I suppose, possibly—you ask me to speak as an individual—I have more of a feeling of resistance to this clause because it would appear to anticipate some desire to seek a device—to perfect some sort of act in the handling of credit insurance which would be bad for the borrower, and I simply cannot feel, looking over the record of the lenders in the field for the past 16 years—and I have looked over it very carefully—that we should be assumed to be looking for a device or something which we could use and which would be a hardship on the borrower. However, some of the people in our association—many people in the industry—feel this is a very unfair prohibition. I know that sitting on my immediate right there is a representative of one of the two largest lenders who is, among other things, an expert in credit insurance. He has studied the question for a number of years and if it would please the committee to have someone who is possibly better qualified than I to answer that question I would be very happy to have him answer it against the background of more experience than I possess.

The CHAIRMAN: Does the committee wish to hear this witness on the subject of insurance? All those in favour? Contrary if any? I declare it the wish of the committee that we do not hear this witness.

Mr. MACNAUGHTON: Mr. Chairman, I do not wish to say anything—I have no axe to grind one way or the other. But this is an important change in the set-up of this proposed bill. It seems to me that we may believe we know enough about it to make a decision, but personally I do not. Credit insurance is one of the basic things which you either uphold or attack, and I do not know which way we should go. Therefore, in the face of the decision, there is not much I can say. I wonder if we were wise in reaching that decision.

Mr. BENEDICKSON: We have an order of business which has been agreed to by this committee. I did not particularly approve of the motion, but I do not see why we should interfere with the plans. Mr. King was to be the next witness.

The CHAIRMAN: I think that perhaps we should limit Mr. Cawker's questions to things concerning the brief. If the committee has time later to hear somebody else, then we may hear other witnesses at that time.

Mr. MACNAUGHTON: That is fair, except that if we run short of time there will not be any hope of hearing this witness.

Mr. FLEMING: Is it not a fact that this witness does not have the answer? It is not in his brief. However, we have decided to finish with Mr. Cawker's evidence.

The WITNESS: I certainly would recommend to this committee that if we can cut some corners, and if I can speed up my evidence and the evidence of the association witnesses, I think it would be most interesting and informative if the gentleman of whom I speak could be heard.

The CHAIRMAN: The committee can decide later on. We will see how we make out with respect to time. Are there any other questions of Mr. Cawker?

By Mr. Monteith:

Q. At the end of page 28 of his brief the statement is made:

This results in the 25 per cent reduction in the rate on the portion of any loan balance between \$500 and \$1000 and a 50 per cent reduction between \$1000 and \$1500.

Reduction from what?—A. As I mentioned, I think, in the third paragraph on the top of the page, generally the current charge for all loans is 2 per cent per month for loans under and over \$500. Now, of course, we have learned here in previous evidence that actually there is a considerable percentage of the industry presently operating in the field over \$500 at rates something less than 2 per cent. But, we assume 2 per cent per month to be the going rate in the field, let us say, between \$500 and \$1500; that is the approach which we took.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, I was wondering if you could explain something to me with respect to this alleged 6 per cent on equity capital which you claim has been the experience of the companies? Is that correct?—A. These figures, as I mentioned, were taken from the report of Deloitte, Plender, Haskins and Sells. Mr. King is the next witness and I would prefer to have him explain his method and answer questions on the results.

Q. Perhaps you could explain something with respect to your own company, as I assume you are acquainted with its own business. I notice in 1952 you had a total of \$60,774 which was your average paid up capital surplus, general reserves and balance of your profit and loss account. The following year you had \$74,235. Am I right in assuming that that difference of \$13,461 was profit?—A. In the main. There was a small amount, I believe, of contributed surplus in that period. I would have to check the statement.

Q. There was about \$5,000, according to these figures, contributed, but apart from that it would be considered as profit?—A. Yes.

Q. That would be something like 22 per cent of this \$60,744 for that year?

By Mr. Cameron (Nanaimo):

Q. Now, the following year you had employed \$74,235 and in 1954 it had increased to \$94,508. Am I right in assuming that the \$20,000 difference must be regarded as profit on your enterprise?—A. I would not be prepared to say, Mr. Cameron, that it should be reported, or that the conclusion should be drawn, that it is profit on the enterprise.

Q. Then, where would it come from?—A. A considerable portion of it came from the formula which we had been guided to use in the determining of cost as between our small loans business and our large loans and conditional sales business, if there was any during the period of which you speak—I do not believe there was.

Q. You did not inherit it from a maiden aunt; it came from your business, did it not?—A. It came because of the required suppression of costs in the small loans business. It does not reflect the reserves for losses which the Department of Insurance disallows as an expense in arriving at a profit.

Q. I know; but your reserves are here.—A. Reserves for what?

Q. For bad and doubtful accounts?—A. I believe I had better get the book.

Q. It is at page 46 of the report of the Superintendent of Insurance—A. For 1954?

Q. Yes, 1954, page 46.—A. I am not prepared to say, in trying to follow this line of figures, whether, in arriving at the profit maintained in the business, this has due regard for reserves for bad and doubtful accounts; but I will be glad to get the information from our accountant on that subject if you would care to have it.

Q. Yes. There seems to be such a discrepancy here between your claim that you only get 6 per cent.—A. I did not claim that I only get 6 per cent. Those are the earnings for the industry.

Q. I am speaking of you as a representative of the industry. Now, I am pointing out that there is one firm which by some strange means has this great discrepancy—22 per cent one year, 27 per cent for the next, and the following year seems to have dropped to 18 per cent. I think, Mr. Chairman and Mr. Cawker, that I am in order to ask the question, because I believe it is fair to find out just what is the profit position of these companies. You told us, Mr. Cawker, I believe, that you were the majority shareholder in this company. Can you tell us, in addition to this increase of average capital surplus paid in and so forth, how much did you draw in dividends, how much did your fellow shareholders draw in dividends, and what did you draw as a director's fee?

Mr. HOLLINGWORTH: And as salary.

By Mr. Cameron (Nanaimo):

Q. Yes, as salary?—A. I will be glad to get those figures for you. However, I could not answer the question of salaries without reference to the accountants.

Q. I do not like to ask it as a personal question, but we have been told that a great deal of the profits are reflected in salaries paid to the owner or part-owner of the companies?—A. With respect to my own salary, I will be glad to give it to you, but as to the dividends—

Q. I do not want to pry into your private affairs but I would like to know what amounts are taken out in that way?

By Mr. Fulton:

Q. May I ask a couple of questions with relation to the rates of earnings which you gave us on page 24 of your brief. With respect to the last figure in the table on page 24, "Remaining Companies—6.5 per cent", is that calculation made before taxes or after taxes?

The CHAIRMAN: Mr. King will cover all this. These are his figures.

Mr. FULTON: That will be perfectly satisfactory.

The CHAIRMAN: Are there any other questions, gentlemen? If not, we will move on to Mr. King.

The WITNESS: The association engaged the firm of Deloitte, Plender, Haskins and Sells to do various studies. I mentioned earlier in my brief that I hoped we would not present repetitious statistics, and I trust we will not. Deloitte, Plender, Haskins and Sells have been practising in Canada for many years. It now has offices in Montreal, Toronto, Winnipeg, Regina, Calgary, Edmonton, Vancouver and Prince George. Its clientele covers the whole range of Canadian business, and this was one of the important considerations which lead us to ask them to prepare the studies pertinent to the matter at hand.

The senior partner is Mr. Walter J. Macdonald, M.C., M.M., F.C.A., who is a past president of the Canadian Institute of Chartered Accountants and of the Institute of Chartered Accountants of Manitoba.

Mr. C. L. King, F.C.A. is the senior Toronto partner of the firm. He was admitted to the Institute of Chartered Accountants of Alberta in 1940. From 1943 to 1946 he was executive assistant to the president of the University of Alberta and in that capacity in charge of all non-academic departments of the university. In 1946 he joined the staff of the Canadian Institute of Chartered Accountants as research director and executive secretary. In that post he participated actively in the development of accounting and auditing practices in Canada as witnessed by the pronouncements on these subjects issued by the research committee of the C.I.C.A., numerous articles in professional literature and speaking engagements throughout Canada.

He was admitted to the Institute of Chartered Accountants of Ontario in 1947 and in 1950 was elected a Fellow of the Institute for distinguished service to the profession.

Mr. King resigned his post with the C.I.C.A. to join the firm of Deloitte, Plender, Haskins and Sells as senior Toronto partner in 1954.

Mr. King has prepared studies, in addition to some other studies on the Canadian companies, which appear immediately following page 26 of our brief, which I have read. So with your permission I would ask that Mr. King be permitted to read and to comment upon his report.

The CHAIRMAN: Is that concurred in?

Agreed.

Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins & Sells, Chartered Accountants, called:

The WITNESS: Mr. Chairman and hon. members: as you may have gathered from looking at the material which forms part of the association's brief and from what Mr. Cawker has just said, my presentation will be in two basic parts. The first part relates to the brief which I shall call the brief of March 12, 1956, which relates to a special report that was made as requested as to what we considered a fair basis of measurement against which the earnings of small loans companies might be measured or compared.

The second section of my presentation, part of which forms the material which you have before you, will relate to the projections, which we made as to the possible impact of the rate proposed in Bill 51 on the small loans industry.

As I have suggested, I have several other studies, copies of which I have here and which may be distributed, but I suggest, Mr. Chairman, that we defer distribution until I reach that point, if that is satisfactory to you.

The CHAIRMAN: Very well.

The WITNESS:

Canadian Consumer Loan Association,

55 York Street,

Toronto 1, Ontario.

March 12, 1956.

Dear Sirs:

As you requested, we have reviewed available information in an attempt to arrive at a fair standard of measurement against which the earnings of companies subject to the Small Loans Act might be compared. For this purpose we have used the information appearing in the annual reports of the Superintendent of Insurance on small loans companies and money-lenders for the years ended December 31, 1949 to 1954 inclusive, plus those of Household Finance Corporation, Ltd., a company making loans of over \$500 which is not required to report under the Small Loans Act. Our study was restricted to these years because of the material growth in the volume of business since the end of world war II. The year 1949 was selected as the starting point only because it was thought that by that time the industry generally would have overcome the problems and restrictions of war and its aftermath.

Since the information reported by the companies has been reviewed by the Superintendent of Insurance and since we did not have access to background information we have accepted the figures as appearing in these reports as being valid.

There are wide variations in results of operations and in the financial organization of the various companies. Several of the companies are known to be subsidiaries of United States companies operating in the small loans field in that country. Others are known to be subsidiaries of Canadian companies operating in other financial fields. It is reasonable to assume that a number of the remaining companies are subsidiaries of other companies or owned by persons with financial interests in fields other than small loans.

With a few exceptions, the companies operating under the Act were also making a substantial (for each individual concern) volume of loans (loans over \$500) not subject to the provisions of the Act and many of the companies were financing conditional sales agreements and other like contracts.

As Mr. MacGregor pointed out and we were certainly in a similar position, we had no knowledge whatsoever of the volume of business or of the number of companies operating in the area above \$500 which did not report to the Superintendent of Insurance, and naturally in any of these figures they are not taken into account.

Recommendation

In the case of the small loans industry, "earnings" should be regarded, in our opinion, as meaning the return secured upon the total assets used in the small loans business.

We recommend that the basis of measuring the earnings of small loans companies be that of the relationship of "earnings" to an appropriate percentage of the average small loans outstanding.

Earnings should be regarded as the gross income from small loans less all operating expenses (excluding interest on borrowed money) and applicable income taxes.

The average of small loans outstanding should be calculated as $1/12$ of the sum of the outstanding balances as at the beginning of each month of the fiscal year under review.

We believe this concept is appropriate as a fair measure for the present purpose, not only because we consider it to be valid in theory but also because there appears to be no other standard that would produce reasonable comparability between companies or between periods of time. The two following sections of this report serve to illustrate the difficulties that would be involved in attempting to measure the "earnings" of the small loan business by other methods.

Lack of Comparability of Figures for Reported Equity Capital

Upon reviewing the circumstances known to exist and those considered likely to exist in relation to the financial structure of the companies reporting under the act, we believe that the figures for invested equity capital as appearing in the annual reports should not be accepted without adjustment. As shown by the attached schedule "B" (See Appendix "A") the relationship of equity capital to total balances of loans and other contracts outstanding varies from a high of 1103.5 per cent to a low of 1.1 per cent as at December 31, 1949 and from a high of 214.5 per cent to a low of 8.5 per cent as at December 31, 1954. And in the tables following immediately on this section of the report—that is, following page 10, you will find schedules "A", "B", "C" and "D". (See Appendix "A")—Schedule "A" is a listing of the dollar amount for the various companies, for total assets—that is, gross assets; total loans and other contracts outstanding, and borrowed money and invested capital and surplus of the various companies reporting to the Superintendent of Insurance.

Included in this report for the years 1949 to 1954 somewhat further on, we come to schedule "B" which sets out the various relationships in terms of percentages. At the moment the relationship of equity capital to total balance of loans and other contracts outstanding varied in 1949 from a high of 1103.5 per cent—and if you will notice in column A on page 10 you will see Commercial Securities with a high of 1131.5 to a low of 1.1 per cent for that year; and looking at the various columns in this particular schedule B you will find that in 1950 the percentages varied from 111.8 to 0.7 per cent; in 1951 from 108.3 per cent to a low of 3.7 per cent; in 1952 from a high of 868.3 per cent to a low of 3.5 per cent; in 1953 from a high of 146.3 per cent to a low of 6.6 per cent; and as at December 31, 1954, from a high of 214.5 per cent to a low of 8.5 per cent.

The averages for all companies were 18.2 per cent and 18.6 per cent for 1949 and 1954. Eliminating six of the companies known to be subsidiaries of other companies, the averages for all remaining companies were 30 per cent and 26.6 per cent, respectively as shown by schedule "D".

These variations in the relationship of equity capital to loans and other contracts outstanding appear to indicate that in a number of the companies the equity capital is unusually low. It seems logical to assume that this would be so where the loan company was a subsidiary of another company or owned by a person, or persons, who had other business interests. Since the particular company reporting under the act constituted only part of the business interests of the larger organization, management requirements would dictate that the financial structure of the various companies making up the whole organization be such as to provide the greatest possible flexibility in the movement of funds from one section of the organization to another as changing conditions required. Funds provided to a subsidiary company by way of equity capital cannot be withdrawn without conforming to the requirements of the act governing its incorporation. Funds provided by way of loan may be repaid without such formality. It thus appears likely that the equity capital in such companies is maintained at a lower level than would be possible were the company a completely independent entity.

The companies incorporated under the Small Loans Act must apply to the parliament of Canada for permission to increase their authorized capital and thus are not in a position to provide readily for such increases as their volume of business expands. If the management of these companies can obtain readily the additional funds by other means, it follows that they would do so. Companies incorporated under other legislation are not so restricted.

Since it is known that several of the companies reporting under the Act are subsidiaries of other companies and since these companies have a substantial proportion of the total loan business reported, an analysis of the reports in respect of reported equity capital should take the foregoing circumstances into consideration.

Also, where reporting companies are engaged in other activities, the reported equity capital has not been allocated between the small loans and other section of their businesses. Thus any assumptions as to "normal" equity capital requirements for the small loans sections of each company would require this apportionment to be made.

Lack of Comparability of Figures for Borrowed Money

A number of the companies obtain additional funds for operations by borrowing from parent or related companies, whereas the remaining companies must obtain such funds through the usual commercial channels. Naturally, in the latter case, the amount that can be borrowed will depend upon the credit record of the company and upon the quantum of equity investment. The rate of interest paid for such funds will vary for the same reasons. For these reasons the figures for borrowed money should not be accepted as reported and thus the figures for interest on borrowed money are not comparable as between the companies.

Schedule "B"—that is again the schedule that has relationships shown in terms of percentages rather than figures—shows the relationship of borrowed money to equity capital for the various companies. As shown therein borrowed money varies from a high of 8844.6 per cent of equity capital to a low of 0.1 per cent as at December 31, 1949.

As at December 31, 1950 from a high of 14,246.0 to a negligible amount; as at December 31, 1951 from a high of 2,488.2 down to a negligible amount; as at December 31, 1952, from a high of 2,734.5 per cent to a negligible amount; as at December 31, 1953 from a high of 1,310.2 per cent to a negligible figure; and as at December 31, 1954, from a high of 942.9 per cent to a low of zero.

Incidentally, I might say that in order to find those extremes, which I have just been mentioning, you will have to take column B for the respective year—that is borrowed money as a percentage of invested capital and surplus, and you will have to run your eye down the various pages for the respective years and pick up the high figure and the low figure. Having worked on this for some time I have some advantage over you.

As shown by Schedule "D"—that is our summary schedule at the end of this particular report—the averages for all companies were 443.3 per cent for 1949; 541.6 per cent for 1950; 612.5 per cent for 1951; 762.0 per cent for 1952; 380.2 per cent for 1953; 417.4 per cent for 1954. If I might interject here, the figure appearing on page five—443.3 per cent of the report itself is the correct figure. I must confess to a typographical error which appears on Schedule "D", for December 31, 1949. There it reads "444.3" and it should be "443.3". (*Revised in Schedule "D" in Appendix "A".*)

Eliminating six of the companies known to be subsidiaries of other companies, the averages for all remaining companies were 215.3 per cent as at December 31, 1949; 238.8 per cent as at December 31, 1950; 290.0 per cent as at December 31, 1951; 243.4 per cent at December 31, 1952; 271.6 per cent as at December 31, 1953, and 257.7 per cent as at December 31, 1954.

Because of these wide variations and the various underlying reasons therefor, it is obvious that numerous assumptions would have to be made even to estimate the costs of borrowed money of the companies in comparable terms.

As to variations, I have mentioned credit history, assets, credit ratings and other affiliations such as parent companies, or what you might call brothers, or sisters, or cousins in the same family, and the extent to which borrowed money is already in use, and whether this is long-term borrowed capital. There are numerous other factors, but most of them have been touched upon to one degree or another.

Mr. CAMERON (*Nanaimo*): Mr. King, I wonder if I could ask a question on this question of borrowed money before you go on to the other, would that be all right?

The CHAIRMAN: Is that the way you want to handle this, gentlemen?

Mr. CAMERON (*Nanaimo*): He seems to be moving into another aspect of it now.

Mr. HOLLINGWORTH: I would suggest, Mr. Chairman, that we hear the whole brief.

Mr. CAMERON (*Nanaimo*): Right you are.

Mr. FLEMING: What would Mr. King prefer to do himself in regard to questions? Would he prefer to go through his brief, or take questions sections at a time?

The WITNESS: Sir, it makes no difference to me one way or the other. I am completely at your pleasure. If you would prefer to take each section at a time, then I am quite satisfied but, if you would prefer to wait until the end of this particular brief, I would prefer to deal with the questions on this one not later than at the end of this particular brief. But, if you wish to interject, that is fine.

The CHAIRMAN: Let us finish this particular one and then have the questions. Is that agreeable to everybody?

Agreed.

The WITNESS:

Assets Employed in the Small Loan Business

Since the business of all companies is that of lending money, the balance outstanding on loans and other contracts appears to be the logical basis by which to compare the relative volume of business of one company with another and against which to relate earnings. The balance of loans outstanding is considered preferable to gross income as a basis since the latter is affected not only by volume of operations, but also by the rates of interest charged.

In the public utility field in this country the policy of fixing the rate of charge for services on the basis of a specified rate of return upon the assets employed in providing the services is firmly established. In such cases, assets used to provide other services or produce other income have been excluded from the "rate base" and conversely all assets used in providing the services have been included. A similar philosophy appears applicable in determining a basis of measurement for the "earnings" of small loan companies. To do so requires the calculation or derivation of the "assets employed" in carrying on a "small loan" business subject to the Act.

Now, I would like to point out here that while I think a similar philosophy is applicable in arriving or determining a basis of measurement, I do not think it is safe to assume that the small loan companies and public utilities are comparable operations. The public utilities are usually in a monopoly, or quasi-monopoly position in their particular area. The small loan companies, on the other hand, are competitive. But, perhaps more important

than that, the public utility, by its very nature, is a company which has, for all practical purposes, the vast bulk of its assets invested in the equipment required to provide the service. That is the inherent reasoning behind the rate cases and the monopoly. It is so expensive to provide the service it has been decided that, in the interest of the community as a whole, it is advisable to provide for the operation of a monopoly under regulation. But, the particular point I want to make is this: the public utility, once having been granted a monopoly has its assets in service, and in many cases they are literally, as well as figuratively speaking, buried in the ground, and certainly firmly planted in the ground. So that once set up a public utility cannot move its assets, physically, to another location, or switch them to another activity. I do not think the same thing can properly be said of the companies reporting under the Small Loans Act at the moment. Their basic asset is money, and as we all know, money flows very rapidly. Money, in the form of capital will flow in the long run, I believe, to those areas of the economy where it receives, what it considers to be a fair return. So that, while I think the philosophy is comparable, I do not think the two particular industries are comparable.

Now, in Canada, just to mention a few of the circumstances to substantiate my statement that such a philosophy is firmly established, it is established to some degree in legislation throughout the country. There are at least four provinces in which the provincial legislators have enacted public utility acts. British Columbia has a Public Utilities Act, the revised statutes of British Columbia, 1948, Chapter 277. Under this act a commission has been appointed for the purpose of determining rates, and it is empowered to consider distinct areas served by the public utility with a view to ensuring, so far as the commission thinks it proper so to ensure, that the rates applicable to various areas are adequate in that they yield a fair and reasonable return on the appraised value of the property of public utility used, or prudently and reasonably acquired for the purpose of furnishing its service in that area. The act provides that the commission may, if necessary, appraise the assets involved. In the province of Alberta the Public Utilities Act, the revised statutes of Alberta, 1952, provide, by section 65, clause (b), that the public utilities board has the power to appraise and value the property of any public utility whenever, in the judgment of the board, it shall be necessary so to do. New Brunswick has a somewhat similar statute. Nova Scotia has a similar statute. There, the board shall fix a fair and separate rate base for each type or kind of service furnished, and each public utility shall be entitled to earn annually such return as the board deems is reasonable.

There are a number of cases in Ontario in which the rate that a public utility can charge to the consumers for its services has been determined by reference to the assets employed; the cost of rendering the service; and a fair return on the assets employed in the providing of that service. That is basically a fair return on the total assets employed. There are a number of other cases throughout Canada of public utility commission hearings which I think establish the philosophy and that contention that it is generally accepted in this country.

As stated previously practically all companies reporting make other loans as well as "small loans". In such circumstances the total assets of the companies used in the various sections of their business must be apportioned as between the "small loans" section and other section of their business. A reasonable basis for such an apportionment appears to be the balances of small and of other loans and contracts outstanding.

That word "small" can, I think, be interpreted to include small loans however the act may define them—whether less than \$500 under the present "ceiling" or greater if the "ceiling" be raised.

In addition to funds to finance loans made, a company must have a working fund to cover operating expenditures and must also provide funds for necessary furniture and equipment with which to carry on business. Also, adequate funds must be readily available to each loan office to make approved loans, and additional funds must be available to take care of unforeseen up-surges in demands for loans.

Schedule "B" also shows the relationship of total reported assets to balances of loans outstanding of the various companies for the years included in the data. As will be seen, total assets vary from 1333.2 per cent to 100.4 per cent of loans outstanding as at December 31, 1949; as at December 31, 1950 they vary from a high of 155.3 per cent to a low of 100.2 per cent; in 1951 from a high 142.3 per cent to a low of 100 per cent; in 1952 from a high of 954.7 per cent to a low of 100 per cent; in 1953 from 331.5 per cent to 100.3 per cent, and as at December 31, 1954 from 333.5 per cent to 100.4 per cent.

It is believed that the unusually low ratio in the case of some companies results from their being subsidiaries of other organizations. In such cases these reporting companies need not retain funds themselves to meet unforeseen situations. In addition, funds which may otherwise be idle in their hands at any time may be withdrawn for use by other companies in their organizations. In all cases of very high ratios the companies are small, new companies with assets not yet invested in loans.

As shown on Schedule D the average relationship of total assets to total loans outstanding for all the remaining companies, except six of the known subsidiary companies, was 108.7 per cent, 106.2 per cent, 106.9 per cent, 106.5 per cent, 105.8 per cent and 106.9 per cent for each of the years 1949 to 1954. The average for these six years is 106.7 per cent.

A study in the United States some years ago suggested that the total assets of small loan companies, used in the small loans section of the business, should be determined as 115 per cent of the balance of loans outstanding. I refer there to the report: *Earnings of Small Loan Licensees 1929 to 1933* by Rolf Nugent, Harvard Business Review, January, 1935. If I may, I will refer a little later to a couple of other paragraphs from that report.

The variation between this ratio and the ratio stated above for Canadian companies is attributable to several factors. A considerable portion relates to an intangible asset, the appraised cost of development of small loans offices, which was based on prices paid at that time in the United States for small loans businesses. A portion of the variation may be due to differences in the general terms upon which money are borrowed from banks in the two countries. This Nugent report covers a number of sections but I would like to read one or two paragraphs which I think are pertinent to the area with which we are dealing. In one paragraph of the report Mr. Nugent stresses the point I made a moment ago about the amounts invested in loans. He says:

The amounts invested in other assets are minor compared with the investment in loans, but they are nonetheless essential. Each small loan office must carry some idle funds in its till and in the bank in anticipation of future demand for loans and for meeting current expenses. Each office also must be equipped with furniture, filing cabinets, adding machines, typewriters, interest calculators, a safe, printed forms, and other office supplies; and certain expenses such as license fees, insurance premiums, and rent must be paid in advance.

Things certainly are the same today, and the same in Canada as in the United States. The author goes on:

Since the amount of idle cash and the amount of equipment necessary to the maintenance of a small loan office vary roughly with the amount of outstanding loans, it was decided to appraise these assets as relatives of the average amount of loans receivable. The item of cash was estimated at 5 per cent of the average amount of loans receivable. All other tangible assets, including furniture and fixtures, equipment, supplies, and deferred charges, were estimated at 4 per cent of the average amount of loans outstanding.

Further down he says:

The true value of a loan balance of sufficient size for profitable operation is therefore greater than the actual amount of outstanding loans. The difference is represented in the reports of many small loan licensees as the cost of organization or cost of development. Many accountants for small loan companies assert that 10 per cent of the amount of loans receivable is a fair value for this item. Although the propriety of including some allowance for this intangible asset item is beyond dispute, its appraisal is essentially arbitrary. After considering the prices paid for going small loan offices in the open market, we have determined upon an appraisal of the cost of development at 6 per cent of the average amount of loans receivable. We believe this to be a conservative estimate.

That is the 115 per cent of loan balances outstanding which Mr. Nugent refers to as his standard against which to measure the earnings; it is thus made up of 5 per cent of the loan balances outstanding which they feel to be necessary to have on hand to operate; 4 per cent to cover tangible assets and charges such as rent and insurance; and 6 per cent, which at that time he based on the going price being paid for small loans companies when they were purchased by another making 15 per cent. Further down he says:

These allowances for cash, other tangible assets, and cost of development amount in total to 15 per cent of the average amount of loans receivable. We believe this figure to be conservative. Appraisals of these items might vary without justifiable criticism from 12 per cent to 20 per cent of the average amount of loans receivable depending upon the opinion and policy of the appraiser. This variation, however, would have but a slight effect on the resulting rates of earnings. By adopting a standard formula, on the other hand, we are able to overcome differences in reported values between states which are much more likely to represent the "leaven of opinion" than differences in fact.

One small point of my own: as you will gather from having looked at schedule A, and then schedules "B" and "D" the average for these six years of 106.7 per cent in the figures I have referred to is the relationship of gross assets of the companies as reported to the loans and other contracts outstanding as at the same date.

The question may arise, in connection with measuring the earnings of the companies, whether assets other than loan balances should be taken at the amounts actually reported or upon the basis of a fair and reasonable allowance calculated in the light of the needs of the business. This phase of the subject is not considered to be within the scope of this report. For purpose of a reasonable standard of measurement we have used the actual amounts of such assets held by the reporting companies in their loans business.

Here the basic thought is that, because of general economic conditions, or the economic conditions of the particular licensees, or because the company is closely controlled by persons who wish to use it as a depository for their personal savings, as opposed to their investment for business purposes, all the

assets in the company may not be required for the loan business. From our study of the figures such does not appear to be the case in Canada, at least to the extent that appears obvious from a scrutiny of the figures. It would not be reasonable to have such funds, which are not used in small loans operations, included in the asset base against which is measured the result of small loan operations or which is used to compare the results of one company with another. You would not be in a position of comparing like creatures; they are not comparable.

Although, as shown by the foregoing comparisons relating to the companies, other than the six known subsidiaries, the relationship between total reported assets and the loan balances outstanding varies to some extent between periods, the range of variation in the 1949 to 1954 period from the overall average for the period as a whole has not been significant in any year. Therefore, it appears that, for purposes of a base against which the earnings of reporting companies may be measured at the present time, the total reported assets of the companies employed in the small loans business may be assumed to be approximately 107 per cent of the average balances of small loans outstanding during the year. However, the percentage should be reviewed from time to time and reaffirmed or revised in the light of prevailing conditions.

Because business conditions do change, and when they change the circumstances under which the companies live and operate change too, some change will undoubtedly arise in the relationship of their assets to loan balances. Thus if any standard of measurement is to be used with regard to this particular type of company it must be reviewed periodically in order to ensure that the proper standard of measurement is being used and that circumstances have not altered. Again, this 107 per cent, as you will see from the centre paragraph on the preceding page, is the average of the percentages for the six years of all remaining companies, other than the subsidiary companies, which form the basic data on which this report rests.

Since the total loans outstanding vary within each year as well as from year to year, the balance of loans outstanding for use in the above formula should take such changes into account. The average of small loans outstanding should be determined as $\frac{1}{12}$ of the sum of the outstanding balances at the beginning of each month of the fiscal year under review.

That, as you will recognize, co-relates the income earned on loans directly to the balance outstanding at the beginning of the month which is the balance which produces the income for that month. If you take the sum of those 12 monthly balances—however they might vary—we then arrive at the closest practicable relationship between loan balances which produce the revenue and income earned on loans, which is the revenue.

Intangible Assets

In addition to the tangible assets reported by the companies, it must be recognized that intangible elements also are employed in the business. Generally, those elements may be collectively characterized as "going value", or the value derived from the expenditures made in creating an organization and establishing the business. Included also in this category is the advantage to subsidiaries, as beneficiaries of the accumulated experience of their parent companies in small loan operations.

There has not yet been developed within the industry in Canada a generally accepted standard for the valuation of these intangible elements in the small loans business although there has been elsewhere. It appears, therefore, impracticable, for the purpose of this report, to provide for the inclusion of intangible assets as a part of the assets employed in small loan activities. When acceptable valuation standards are developed for the inclusion of intangible assets in the total assets used as the earnings base, expenditures recognized as elements of "going value" should be excluded from the costs of operations.

Determination of Return

Since the base against which we propose that earnings be measured is total assets in the small loans business, it follows that "earnings" will correspondingly consist of the return upon such assets.

The return is a net amount, reflecting gross income less operating expenses and applicable taxes. It recognizes such factors as the effects of volume and variations in efficiency and in rates charged to borrowers. An appropriate provision for potential losses on outstanding accounts should be deducted in determining the return since it is a truism that all balances of small loans outstanding will not be collected in full.

Inasmuch as the basis of measuring the return is total assets, interest upon borrowed capital should not be deducted in arriving at the amount of the return. However, such interest is allowable as a deduction in providing for income taxes payable. Therefore, in computing "applicable income taxes" for purposes of determining the return, it is necessary to adjust the actual provisions for income taxes by the reporting companies so as to compensate for the tax effect of the interest and thus to determine the tax deemed to be applicable to taxable net income before interest.

The computation of the adjustment presents a problem of apportionment. The most reasonable method of adjustment appears to be that which would increase the income tax expense by the amount of tax reduction applicable to the interest. This tax adjustment should be arrived at by recomputing the tax on the basis of taxable income *before* interest. If necessary, a similar adjustment should be made to equalize the tax effect with respect to provisions for losses on outstanding accounts.

In other words, under Canadian income tax law, whether the taxpayer is an individual or a corporation, interest on borrowed money used in earning income is an allowable expense; that is, it may be classed as an expense and acts to reduce what otherwise would be the taxable income. Therefore, as we suggest, we should delete the interest on borrowed money from the return because the base is assets employed, and these assets may be acquired by either investment capital or borrowed money. If we delete that interest on borrowed money, then we must adjust for the tax impact of that borrowed money, that is, adjust the reported income tax, or income tax calculated for the company's purposes by what they are actually going to pay to the income tax department, to the figure against which we are attempting to measure earnings, that is income before interest and taxes by the applicable income tax.

I would like to go back to page 2 and restate and summarize the recommendations.

We recommend that the basis of measuring the earnings of small loans companies be that of the relationship of "earnings" to an appropriate percentage of the average small loans outstanding.

Earnings should be regarded as the gross income from small loans less all operating expenses—excluding interest on borrowed money—and applicable income taxes.

The average of small loans outstanding should be calculated as 1/12 of the sum of the outstanding balances as at the beginning of each month of the fiscal year under review.

We believe this concept is appropriate as a fair measure for the present purpose.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Mr. King, I wonder if you could explain your schedule "B" on page 10. I find it a little puzzling. Would you look at the "B" column for the Commercial Credit plan. Am I right in saying that this 1572.7 is the percentage

of borrowed money as a percentage of investment capital?—A. “B” is the percentage of borrowed money as a percentage of invested capital and surplus.

Q. Yes. Well now, will you turn to the report of the Superintendent of Insurance for 1954, page 46, and look at item 12, 1,590,000 borrowed money; and then turn to Mr. MacGregor’s report—if you have it before you—of licensees under the Small Loans Act, table 4, where you will see set out the average paid up capital general reserve, balance of profit and loss account, for 1954 of \$356,136. Now, there may be something which I have not understood in this, but how is it that you calculate that the \$1,590,000 of borrowed money is 1572·7 per cent of \$356,136? It would appear to me to be more like 500 per cent?—A. You are quite right, Mr. Cameron. It is much closer to 500 per cent. As at December 31, 1954—taking the figures as at the end of each year, that is December 31—Mr. MacGregor’s figures will differ slightly from mine because he has used an average of opening and closing figures for the year, and in this particular case I have used the figures as of December 31st.

Q. There seems to be a very great discrepancy?—A. I will attempt to illustrate. Commercial Credit Plan, as at December 31, 1954, according to my figures, had \$1,590,000 borrowed money outstanding, and according to my figures had invested capital and accumulated surplus of \$385,745; that shows on page 3 of schedule “A”. Then, moving over to schedule “B”, which translates that into percentage figures, if you look at column B and move over to the page marked 10-A, whereas for December 31, 1949, you saw the figure 1572·7, in the right hand column on page 10-A it is 412·2, which is the relationship of borrowed money to invested capital and surplus of Commercial Credit Plan as at December 31, 1954.

Q. I see it now. I am sorry; I had the wrong year.

The CHAIRMAN: Are there any further questions, gentlemen?

By Mr. Fulton:

Q. May I go back to one question which I wanted to ask about the per cent of net profit expressed in percentage as shown on page 24. What I want to do, Mr. King, is to compare the rates arrived at there, after the application of the new rates proposed in the bill which I understand is your calculation, with Mr. MacGregor’s calculation on page 40 of his brief, which in the fourth line says: “It is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders’ own funds”. You show a net profit expressed in percentages of 6·5 per cent—or it does on page 24 of the brief and those are quite close. I wanted to ask you to comment on this, because I understood you to say the new method of calculating profit, which you suggest, is quite important to an understanding of this; and yet it seems to me that you arrive at percentage figures which are very close, whether you use your method or the method which Mr. MacGregor suggest?—A. You are quite right. It is what you might call a coincidence of figures. I might explain, perhaps, how I have come to arrive at my computations and projections, but I would prefer, Mr. Fulton, to leave it to my report which is published in here following this, dated March 19th. Mr. MacGregor has mentioned the basis for his estimates, and then I think you will agree that basically our estimates are approximately the same, although we have come at them from a different concept altogether. This particular figure at page 24 is our net profits as a percentage of invested capital and surplus that is net profit in the usual and normal connotation of the term. It is the net after interest on borrowed money and after income tax, and after all charges. In other words, coming right down to the net profit percentage of 10·4 which would be reduced to 6·5 for these remaining companies.

The basis of measurement which I am suggesting here in my March 12 report gives it in a different manner. What I have said in this report is that in our opinion you cannot compare the various companies or businesses in the small loans business on the basis of net profit, because there are so many factors in the variations in the percentage of the borrowed money to invested capital which may come into play. Usually the first variation is what is the credit standing of the company which wants to borrow money to lend out, and that is usually based upon past experience and size because a small company cannot go out and get money as easily as a large company. That fact is well known.

It will also be affected by whether or not it is one company of a group or the sole activity of the proprietor. If it is a subsidiary company, with a larger parent which in turn has borrowing power, the parent may use the borrowing power of the organization as a whole to borrow funds; and in that case the amount of money which the parent can borrow or the organization as a whole will be related to the concept or to the opinion of the investors as to whether or not it is a proper investment to make in that particular company or in their bonds.

As we have seen for the remaining companies—that is, if I may use the term independent companies, Canadian independents—we find that on the average over this period they have borrowed about \$2.50 for every \$1 of invested capital, whereas the six companies—which are six of the known subsidiaries, but not all have been able to borrow over 400 per cent, or 450 per cent of invested capital, and some of them go higher. There are variations among the individual companies. Therefore, because of the vast differences which they have in relationship to their small loans operations as such, and in the financial setup of these particular companies, whether they are or they are not one company or a larger group, and for various other reasons, we feel that it is not appropriate to attempt to measure these companies one with the other, and to say this company is more efficient or less efficient, or so forth by reference to net profit, because it can vary so widely.

If I may, I shall now ask the clerk to distribute the schedule which appears in package number three. I think it might be useful at this time to utilize these two schedules which I have drawn up, one for small companies and the other for large companies. The “small company” is more or less an approximate or average of the small companies in our data, while the “large company” is approximate to the average of large companies in our data. In these schedules I have attempted to illustrate—assuming all other factors being equal—what would be the impact of variations in the ratio of borrowed money to invested capital alone.

Now, if we may, I think it would be helpful if we could utilize these schedules because I think it might help me to answer Mr. Fulton's question. As you will see when they have been distributed to you, they are as follows:

PREPARED BY CANADIAN CONSUMER LOAN ASSOCIATION
SCHEDULE SHOWING EFFECT OF VARIATIONS IN RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS
ON NET PROFITS AND EARNINGS OF SMALL LOANS COMPANIES
AND EFFECT ON NET PROFITS AND EARNINGS OF REDUCTION IN GROSS INCOME
LARGE COMPANIES

	Example A 8 : 1		Example B 4½ : 1		Example C 1 : 1	
RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS.....						
LOANS OUTSTANDING.....						
BORROWED MONEY.....		\$ 28,000,000		\$ 28,000,000		\$ 28,000,000
INVESTED CAPITAL AND SURPLUS (ASSUMING EXCESS OF LIABILITIES OVER OTHER ASSETS OF \$200,000).....		\$ 3,000,000		\$ 5,000,000		\$ 13,900,000
	Present Rates	Reduced Rates*	Present Rates	Reduced Rates*	Present Rates	Reduced Rates*
GROSS INCOME EARNED ON LOANS.....	\$ 6,300,000	\$ 5,292,000	\$ 6,300,000	\$ 5,292,000	\$ 6,300,000	\$ 5,292,000
OPERATING EXPENSES.....	2,961,000	2,961,000	2,961,000	2,961,000	2,961,000	2,961,000
GROSS EARNINGS.....	\$ 3,339,000	\$ 2,331,000	\$ 3,339,000	\$ 2,331,000	\$ 3,339,000	\$ 2,331,000
INTEREST ON BORROWED MONEY.....	1,364,000	1,364,000	1,254,000	1,254,000	764,500	764,500
INCOME TAXES—AT 20% ON FIRST \$20,000 AND 47% THEREAFTER.....	\$ 1,975,000	\$ 967,000	\$ 2,085,000	\$ 1,077,000	\$ 2,574,500	\$ 1,566,500
	922,850	449,090	974,550	500,790	1,204,615	730,855
NET PROFIT.....	\$ 1,052,150	\$ 517,910	\$ 1,110,450	\$ 576,210	\$ 1,369,885	\$ 835,645
INVESTED CAPITAL AND SURPLUS.....	\$ 3,000,000	\$ 2,465,760	\$ 5,000,000	\$ 4,465,760	\$ 13,900,000	\$ 13,365,760
NET PROFIT AS A % OF INVESTED CAPITAL AND SURPLUS.....	35.1%	21.0%	22.2%	12.9%	9.9%	6.3%
GROSS EARNINGS.....	\$ 3,339,000	\$ 2,331,000	\$ 3,339,000	\$ 2,331,000	\$ 3,339,000	\$ 2,331,000
INCOME TAXES.....	1,563,930	1,090,170	1,563,930	1,090,170	1,563,930	1,090,170
NET EARNINGS.....	\$ 1,775,070	\$ 1,240,830	\$ 1,775,070	\$ 1,240,830	\$ 1,775,070	\$ 1,240,830
ASSETS EMPLOYED (107% OF AVERAGE LOANS).....	\$29,960,000	\$29,960,000	\$29,960,000	\$29,960,000	\$29,960,000	\$29,960,000
NET EARNINGS AS A % OF ASSETS EMPLOYED.....	5.9%	4.1%	5.9%	4.1%	5.9%	4.1%

*Reduction of income has been estimated at 16%, based on computations for small loans companies in 1954 and 1955 which showed reductions in loan income of 15.9 per cent and 16.4 per cent respectively.

PREPARED BY CANADIAN CONSUMER LOAN ASSOCIATION
SCHEDULE SHOWING EFFECT OF VARIATIONS IN RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS
ON NET PROFITS AND EARNINGS OF SMALL LOANS COMPANIES
AND EFFECT ON NET PROFITS AND EARNINGS OF REDUCTION IN GROSS INCOME.

SMALL COMPANIES

	Example A 8 : 1		Example B 2½ : 1		Example C 1 : 1	
RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS.....						
LOANS OUTSTANDING.....	\$ 200,000	\$ 168,000	\$ 200,000	\$ 168,000	\$ 200,000	\$ 168,000
BORROWED MONEY.....	\$ 840,000	120,000	\$ 840,000	120,000	\$ 840,000	120,000
INVESTED CAPITAL AND SURPLUS (ASSUMING EXCESS OF LIABILITIES OVER OTHER ASSETS OF \$50,000).....	\$ 110,000	\$ 48,000	\$ 110,000	\$ 48,000	\$ 110,000	\$ 48,000
GROSS INCOME EARNED ON LOANS.....	\$ 29,600	\$ 29,600	\$ 39,500	\$ 7,200	\$ 51,500	\$ 19,500
OPERATING EXPENSES.....	8,512	8,512	13,024	1,440	18,805	3,900
INCOME TAXES—AT 20% ON FIRST \$20,000 AND 47% THEREAFTER.....	\$ 21,088	\$ 21,088	\$ 26,176	\$ 5,760	\$ 32,695	\$ 15,600
NET PROFIT.....	\$ 110,000	\$ 86,512	\$ 270,000	\$ 249,584	\$ 475,000	\$ 457,905
INVESTED CAPITAL AND SURPLUS.....						
NET PROFIT AS A % OF INVESTED CAPITAL AND SURPLUS.....	19.2%	Loss	9.7%	2.3%	6.9%	3.4%
GROSS EARNINGS.....	\$ 80,000	\$ 48,000	\$ 80,000	\$ 48,000	\$ 80,000	\$ 48,000
INCOME TAXES.....	32,200	17,160	32,200	17,160	32,200	17,160
NET EARNINGS.....	\$ 47,300	\$ 30,840	\$ 47,800	\$ 30,840	\$ 47,800	\$ 30,840
ASSETS EMPLOYED (107% OF AVERAGE LOANS).....	\$ 1,070,000	\$ 1,070,000	\$ 1,070,000	\$ 1,070,000	\$ 1,070,000	\$ 1,070,000
NET EARNINGS AS A % OF ASSETS EMPLOYED.....	4.5%	2.9%	4.5%	2.9%	4.5%	2.9%

*Reduction of income has been estimated at 16 per cent, based on computations for small loans companies in 1954 and 1955 which showed reductions in loan income of 15.9 per cent and 16.4 per cent respectively.
() denotes loss.

The CHAIRMAN: Has everybody now got a copy of the sheets? If so, let us carry on!

The WITNESS: May we take the sheet which bears the sub-heading "Large companies" as a starter. Now, here I have made up three examples of companies A, B, and C.

In company A we have a ratio of borrowed money to invested capital and surplus of 8 to 1 or 800 per cent, the figure I was using a while ago.

By Mr. Fleming:

Q. Are these actual or hypothetical examples?—A. These are hypothetical examples.

As I have said, I have made up the figures for the large companies as approximating the loans outstanding on the average of what you might call the large companies in the data, while in the case of the small companies it is approximately the average of the small companies in the data. These figures do not purport to be the actual figures of a company. They are simply designed to illustrate one point only, and that is the impact or the effect of leverage, that is variations in the amount of borrowed money on the reported net profit of the company.

They illustrate, for companies in the same line of business with the same gross revenue and the same level of operating efficiency, how the net profit stated as a percentage of the invested capital and surplus will vary between any limits that you wish to set, merely because of the variations in the ratio of borrowed money to invested capital.

Company A has what might be termed a high ratio of borrowed money to invested capital, of 8 to 1; while company B has an average ratio of borrowed money to invested capital of $4\frac{1}{2}$ to 1, or 450 per cent. Example C has a low ratio of \$1 of invested capital for each \$1; or \$1 of borrowed money for each \$1 of invested capital and surplus.

By the Chairman:

Q. Should not that figure be \$22,500,000 in example B?—A. We did maintain a slight differential. The figures are a close approximation, but we wanted to maintain a realistic differentiation taking into account that there are other liabilities and other assets, other than loans.

The CHAIRMAN: The division bell is ringing so we shall now adjourn to meet again at 8.15 tonight.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. King was speaking about these two tables which had just been distributed to the members. Would you carry on, Mr. King?

Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Hasking & Sells, Chartered Accountants, recalled:

The WITNESS: Mr. Chairman and honourable members, as the chairman mentioned at the conclusion of this afternoon's session I was just beginning to comment on the schedule, which is headed "Large companies". As I mentioned, these have been prepared to illustrate the effect of leverage, that is the relationship of borrowed money to invested capital upon the net profits of companies,

particularly to illustrate why, in our opinion, net profits in themselves are not a workable basis for the measurement of the results of operations of various companies.

Now, as I have pointed out, example "A" was a company where we might say the relationship of borrowed money to invested capital and surplus is high. Example "B" where the ratio is $4\frac{1}{2}$ to one is one which we might call average, having regard to the data on which our report of March 12 is based. Example "C" is where the ratio is lower.

Now, in all three cases, of course, the loans outstanding are \$28 million. The borrowed money, of course, varies. In example "A", \$24,800,000; in example "B", \$22,800,000 and in example "C", \$13,900,000.

Invested capital and surplus have been set assuming that we have an excess of other liabilities over other assets of \$200,000. Keeping that figure in mind we then balance off to the loans outstanding. So in example "A" we have \$3 million of invested capital; in example "B" we have \$5 million of invested capital, and in example "C" \$13 900,000 of invested capital.

Dropping down one more line to "Gross income earned on loans", and for the present at least if you will take the alternative headings, the column headings marked "present rates" you will see the first, the third and the fifth columns. We will assume that each of these companies earns the same rate on an annual basis on the loans that they have outstanding. We will further assume, dropping down to the next line, that these companies have the same standard of efficiency, that the operating expenses in each case are \$2,961,000, leaving us a figure for gross earnings in each case again of \$3,339,000.

So far, the variations in ratio of borrowed money to invested capital have not had any effect. The companies are securing revenue at the same rate with the same gross assets. They are operating at the same level of cost and efficiency. The next column is "interest on borrowed money", and here again for each of the three cases we have calculated the interest at the same rate. In other words \$1,364,000 is the same rate on \$24,800,000 as \$1,254,000 is on \$22,800,000. Similarly for the third example, \$764,500 on \$13,900,000.

We then come down to a figure, which I have not labelled because it has no particular significance, of gross earnings after interest and before taxes. You will see here the variations. Income taxes have been taken at the rates currently in effect in Canada on a company: at 20 per cent of the first \$20,000 of income, and 47 per cent on the income in excess of \$20,000. Income tax, naturally, according to the act, is calculated on the income after all ordinary expenses and, after interest on borrowed money, because that is the provision of the act. We thus find the income tax figures as stated.

We then come down to what might be said "net profit" in these examples. This is the net profit of the various companies to their presumed equity capital. In the first case where the ratio of borrowed money to invested capital is high—\$1,052,150; in example "B" where the ratio of borrowed money to invested capital may be said to be average—\$1,110,450; in example "C" where the borrowed money is low, thus the interest expense on borrowed money is low, our net profit is \$1,369,885. If we relate this net profit for the period to the invested capital and surplus employed in the particular business we find that in example "A" the net profit stated as a percentage of invested capital and surplus is 35.1 per cent; in "B" 22.52 per cent; in "C", 9.9 per cent.

Since these examples have been constructed so that there is only one variable in the example, that is the quantum of borrowed money in relation to the invested capital, the variations in the net profits stated as a per cent of invested capital and surplus are due solely to the variations in the borrowed money.

Next we illustrate the standard of measurement referred to in our report dated March 12, where we have said that in our opinion we believe a proper standard of measurement for the earnings of small loan companies is the relationship of earnings, as defined in that report, to, for the present at least, 107 per cent of the average loans outstanding. Because as I went on further to say, it appears that it is the only method by which we arrive at figures which are truly comparable as between the various companies. In other words, the only figures where the revenues and expenses of carrying on a small loan business per se have an impact on the figures, and where we exclude the impact of certain variables, which may exist, not because it is a small loans company, but because there is perhaps a parent and child, or a brother-sister relationship. Where the variations in the ratio of borrowed money to invested capital are due to some factor, which can truly be said to be outside the scope of the small loans business.

Now, applying that same concept in that same fashion—again to these same figures, we come down to the line “gross earnings”. That is income earned on loans, less all operating expenses except interest on borrowed money and income taxes. You will notice that is the same figure as appears in the third line of the income tabulations—\$3,339,000, in the case of each of the three companies regardless of their relationship of borrowed money to invested capital.

Earlier this afternoon in our report I stated that earnings should be gross income less ordinary operating expenses, except interest on borrowed money, and less applicable income taxes. I use the term “applicable” because, as I mentioned a moment ago, under Canadian income tax law interest on borrowed money is an allowable expense in determining taxable income. Therefore the income tax figures that you see above on the sixth line “income taxes” have been computed by taking into account interest on borrowed money as an expense.

Now then, if we are going to say that interest on borrowed money is not an applicable item in respect of these companies because the outside factors have such a high impact, and we are going to extract that interest from the return figure or the earnings figure, it follows, I think quite logically, that since income taxes were calculated taking interest into account, if we take the interest out we must adjust the taxes accordingly. So the figures that you see for income taxes, \$1,563,930, are the taxes that would be levied, assuming no interest on borrowed money whatsoever.

We then come down to the figure which we describe as “net earnings”, \$1,775,070 for each of three companies.

The next step is to calculate assets employed. If we can assume that 107 per cent of the average loans outstanding is, as suggested in the report of March 12, an applicable figure, then the assets employed for producing these earnings for each of these companies have been \$29,960,000 in each case. Therefore, expressing that earning as a percentage of assets employed, we find that in example A net earnings as a percentage of assets employed is 5.9 per cent; in example B it is 5.9 per cent and the same in example C. This is the case in each example and as it should be because we have assumed that each of the three companies has had the same amount of money outstanding in loans receivable. We have further assumed that they each earned the same rate on their loan balance outstanding and further that their expenses were exactly the same. Therefore in the circumstances their earnings should be comparable and the same, which they are at 5.9 per cent, and, as I suggested earlier, contrast that with the variation that comes into play when net profits are stated as a percentage of invested capital and surplus. One conclusion you might draw if you look at net profit is that company A is $3\frac{1}{2}$ times as efficient as company B because its net profit as a percentage of invested capital exceeds

by $3\frac{1}{2}$ times that of company C whereas the loan balances outstanding are exactly the same. I do not think that is an appropriate conclusion in these particular circumstances, but to say that the net earnings of company A by the formula of 5.9 per cent is the same as that for company C is, I think, a valid conclusion.

Now if we may proceed to the next example, small companies, you will see that again this is a hypothetical example designed to show the impact of variations in the ratios of borrowed money to invested capital on what might be called a small loans company.

Mr. CAMERON (*Nanaimo*): One moment, Mr. Chairman; may I ask Mr. King whether the same principle—if there is a principle—applies in this as in the other one? Is it going to add to our knowledge of your thesis if you read this one out to us? It is the same proposition is it not, except you have illustrated it on a smaller scale—you have $2\frac{1}{2}$ to 1 instead of $4\frac{1}{2}$ to 1. I cannot see where we would learn any more if we went through this.

The CHAIRMAN: Mr. King, are there some lessons to be learned from this table that would not be learned from the previous table?

The WITNESS: Mr. Chairman, what I propose to do here is simply to point out that this has been prepared on the same basis as the preceding table—the same loans outstanding, the same rate earned on loans as between companies, the same efficiency; and we have net profits in these cases of 19.2 for company A, 9.7 for company B and 6.9 for company C.

By Mr. Pallett:

Q. May I ask one question? In your gross income of the large and small companies there seems to be a discrepancy—is there any explanation?—A. Yes, there is. For gross income, on the basis of the tabulations you have already had before you, it would appear that the larger companies earn on an annual basis a slightly higher rate in relation to the average loans outstanding than do the smaller companies. While I do not suggest that this is typical of a small company or the average of the large companies we did try to set up the example relatively close to circumstances as we find them in the small loans business in Canada where we do find that the small companies have in fact been earning a slightly lesser rate when related to loans outstanding than have the large companies. Similarly, with regard to expenses, the expense ratio, perhaps only by reason of size, is slightly higher than for the large companies. Again, the cost of borrowed money is set at a slightly higher rate than for the large companies. So that when you come down to the last line, that is net earnings as a percentage of assets employed for small company A, small company B and small company C, we find that in each case it is 4.5 per cent compared with the example of the large company of 5.9 per cent. Now I have explained that the variations are, first, the small companies do in fact—and in this example we have so provided—earn a slightly smaller rate on loans outstanding than do the large companies. Also, smaller companies have a slightly higher expense to income ratio than the larger companies. Bearing these two factors in mind it would appear natural to assume that the small company in this case would in fact have lower net earnings as a percentage of assets employed than would the large companies and in the example given that is what is shown. With the smaller companies, as with the large companies, the variations in the ratio of borrowed money to invested capital and surplus produce wide variations in the net profit when it is stated as a percentage of invested capital and surplus, in this case from 19.2 to 9.7 to 6.9. As I mentioned before I do not think it is fair to suggest that large company A is many times more efficient than small company C, for

instance, because its net profit is 35.1 compared with 6.9 of small company C. The difference lies in two factors, first, large company A has a high leverage factor—the ratio of borrowed money to invested capital is high. Small company C has a low leverage factor—borrowed money is less, dollar for dollar, on the invested capital. True, large company A is more efficient and pays a slightly higher rate than small company C or any of the small companies, but the earnings formula does indicate that; it is slightly higher at 5.9 compared with 4.5.

By Mr. Hollingworth:

Q. Do these companies pay income tax on gross earnings or on net?—A. The companies in fact pay income tax on net earnings or, at least, on net profit after taking into account interest on borrowed money and any company's net profit is so computed, because that is what the law calls for. To arrive at an earnings figure on a comparable basis, where we have to extract or take out of the return the interest on borrowed money, it appeared that since income tax was calculated with reference to that amount, correspondingly we should in turn adjust income tax by the amount we take out of expenses. That is the reason for the adjusted income tax figure.

To illustrate the effect of leverage or a high ratio of borrowed money: If in the large company you start out with a situation where for every dollar you put out you can borrow one dollar, your net profit is 9.9 per cent, as you progress and are able to borrow more money, assuming the shareholder is prepared to take the additional risk involved, by increasing his ratio of borrowed money on invested capital and surplus but basically without increasing the volume or efficiency of the service, you step that up from 9.9 to 32.2, and so on. The reverse, of course, also operates.

Mr. TUCKER: Mr. Chairman, we are quite familiar with the fact that the small companies need money at a low rate of interest and the cheaper they can borrow the more profit they make on their capital. I think we are all fully aware of that, and there is no need for us to go into this great detail. We have a lot of work to do, and I submit that if the witness is not going to prove any more than that, he should move on to the next point. All he is proving now is that the more they can borrow at certain rates of interest the more they will make, proportionate to the amount of invested capital in the business. That is quite clear.

The CHAIRMAN: I do not think that is the point he is trying to make.

Mr. TUCKER: If that is not the point, I do not see any other.

Mr. CAMERON (*Nanaimo*): Neither do I.

The CHAIRMAN: I think the point he is trying to illustrate is simply that it is a question of how you should calculate net profit—whether it should be on invested capital or on the total assets employed. At least, I gather that.

Mr. TUCKER: The suggestion is that the smaller company cannot make as big a percentage of profit on the money invested by way of capital and reserves as the big company. That is quite clear—we understand that. I do not see that this proves anything other than that the large company and the subsidiaries borrow a great deal of money and have less active capital invested on their own.

The CHAIRMAN: I think the whole question is an accounting problem—whether it is a suitable accounting practice to calculate net profits on the capital and surplus employed, or on the total assets employed; and I think that, simply, is what Mr. King is trying to do.

Mr. HOLLINGWORTH: I think the witness has made his point very clear; I think he has explained it well. Perhaps I could suggest that we might now go on to hear the next witness, if Mr. King has finished.

The CHAIRMAN: I think he has another case to present—By the way, where are those great battlers for more meetings?

Mr. FULTON: They are taking part in the debate on the income tax bill, which is of interest to all members of this Banking and Commerce Committee; they are in the house doing their duty in the chamber. Would you care to arrange with Hon. Mr. Harris to have the income tax bill held over so that they could come back here?

The CHAIRMAN: I was just interested in where they were; I thought perhaps they were dangerously ill.

Mr. CAMERON (*Nanaimo*): I suggest that the pot should stop calling the kettle black.

The CHAIRMAN: If you wish to call yourself a pot, that is your privilege.

The WITNESS: I was within two sentences of completion. What I am trying to show by an example where the variations are controlled is that, because of this borrowed money factor, you get wide variations in net profit whether a company be large or small; whereas on earnings we get a factor which indicates rate of return in terms of efficiency and excludes this factor of borrowed money which is beyond the small loans business.

Mr. Fulton asked a question this afternoon. I have had an opportunity, between the afternoon's session and this evening's session, to have a quick look at the figures. As I recall it, Mr. Fulton asked this afternoon if I could explain the difference between the net profits stated as the percentage of invested capital, on page 24 of the association's brief, where they were stated as being adjusted to 6.5 per cent for the remaining companies, compared with the estimate set out on page 40 of Mr. MacGregor's brief where, if I recall it correctly, the term he used was to the effect that the companies would be the remaining companies in the "all others" group and would be about 6 per cent. Now, the main difference in those figures—

By Mr. Fulton:

Q. My interest in this was that I understood you to say that it was important to use your basis of comparison because it enabled you to compare a more realistic basis, and yet I was interested to find that, whether you use your basis or Mr. MacGregor's basis, the figures are quite close, 6.5 per cent as against 6 per cent?—A. Mr. Fulton, on page 20 of the association's brief is set out the earnings as a percentage of the assets employed for "all companies", six of the known subsidiaries, and the remaining companies, and in there it is 4.2 per cent on the basis of the 1954 results. On the basis of the earnings proposed in the bill for the remaining companies that drops to 3.2 per cent.

The 6.5 per cent is a net profit figure stated in the same terms as Mr. MacGregor's "about 6 per cent". But, there is a factor in there. You will notice that the adjusted net profits, after taking into account the revised rates in the bill, are \$465,000 and that figure has been related to a base of invested capital and adjusted surplus. In other words, the book figures for capital and surplus have been adjusted by this difference in net profit because presumably if they get less money they would have less accumulated surplus. If the revised net profits were related to the original base, you would state it about 6.2 something per cent. If there is any remaining difference between the 6.5 and Mr. MacGregor's 6 per cent, I cannot undertake to explain it because I am not familiar with Mr. MacGregor's computation.

Q. In other words, what you are saying is that you would suggest that the figures given on page 20 are the realistic figures rather than the figures in Mr. MacGregor's brief, or the association's brief, as the reduced rate?—A. Yes. I think that is a fair summary, that the earnings are the only figures with which you can rate one company with another—large or small—on a

comparable basis; but net profits figures have been produced, because in most cases that is what we would normally think of; but, in this case, I think the earnings base is the appropriate base for measurement.

The CHAIRMAN: Are there any further questions on this part of Mr. King's brief? If not, I would ask Mr. King to go on to the other portion.

By Mr. Cameron (Nanaimo):

Q. I wonder if Mr. King could explain this to me: I notice in the example A for the small companies that the invested capital surplus of \$110,000 and the \$840,000 of borrowed money, which makes up a total of about \$1 million, is almost precisely the figures given for the Bellvue Finance in the 1954 report of the Department of Insurance, at page 46, and yet the other figures do not seem to quite tab there properly. I notice that you have interest on borrowed money of \$50,400, but the Bellvue Finance only paid \$42,855. The same is true of a lot of the other figures; they do not jibe, and yet it is almost precisely a question in point.

Q. Mr. Cameron, if I might answer you in general terms, as I mentioned with respect to the larger companies, \$28 million is roughly the average outstandings, when you take the number of the large companies and total their total outstandings and divide by the number of companies. Similarly with the small companies, when you take the remaining companies, total their loans outstanding, and divide by the number of companies you come to approximately \$1 million. Thus, on that basis, we set our loans outstanding at \$1 million, in easy round figures. Then the next figure which we picked—and this was without reference to any individual company at all—

Q. I did not think it had been.

A. —was that in our report of March 12. We pointed out that for the independent companies—that is the 58 companies other than the six known subsidiaries—the ratio of borrowed money to invested capital was approximately 2.50 per cent. That was the next figure. We said that example "B" will be an average company roughly in line with the experience of the 1949-1954 period. So, that was set at $2\frac{1}{2}$. You will notice in the large companies that the average company is roughly $4\frac{1}{2}$ to 1. The next figure we set was the high ratio of borrowed money to invested capital. Just looking down, and scanning it by eye, we thought that 8 to 1 was a fair figure to use for the large companies. Therefore, we also used the 8 to 1 for the small companies to put large company "A" and small company "A" on a comparable basis. It was purely with reference to the average figures for the companies included in the data, and there was no attempt in any shape or form to make the figures appear like or different to any individual company. Rather it was to get the loans outstanding in the first instance roughly comparable for the average small company to the average of the industry.

Q. I have one more question, Mr. King; I do not know whether or not it is a fair question to ask. What would your answer be as a chartered accountant, if I, or someone, were to come to you, and say that we had \$100,000 and that we wished to invest it in large company "A", and asked you about how much we might expect to make on our money, would you say 35.1 or 5.9?—A. Mr. Cameron, I am not an investment counsellor at all, so I will deliberately avoid saying whether or not I would invest the money. But I would make this comment: as an investment, I do not think it would be fair for me to expect that any company would pay out its total earnings in the form of dividends to me as an investor. There is a wide variation in the policy of companies as to the percentage they pay out.

Q. But that would not affect the position of the investor. He might not get it in immediate dividends, but he would get it in his share of the earning surplus by this capital account.—A. To a degree, yes; but again, as I pointed

out in the report of March 12, the average company that is a completely independent entity, be it large or small, appears to have a borrowing power of about 2.5 dollars for each dollar of invested capital and it also appears where a company has borrowing power of 8.1—that is borrowed money to invested capital—the large companies at least all appear to have a parent in the background which does the borrowing.

Q. I know that. But can you tell me this: which figure would you say represents the earnings an investor could expect, 35.1 or 5.9? That is what we wish to find out; just what are the real earnings of these companies? What are the investors making out of them?—A. I think, Mr. Cameron, that there is perhaps more than one context in which we may want to look at earnings; as an investor; as a lending company; and from the standpoint of this committee here. From the standpoint of measurement, or as a guide-post, which you will utilize in determining whether or not any rate set is a fair rate, here, there, or some place else, regardless of the company, I think that you must utilize an earnings concept as opposed to a net profit concept, because in the net profit concept, as we are speaking today, if an investor, along the lines of your particular question, wished to invest in that company, even though it has a high rate of return, he first of all has to assess very carefully the extra element of this risk involved because of the higher proportion of borrowed money, and what could happen because of a decline in business. As an investor I have one concept of doing business; another when I am trying to determine what is the rate, in this case a rate to be allowed on loans, and whether that rate is a fair rate; how it will affect the small loan companies and large companies, how it will affect companies with a small or high ratio of borrowed money. Unless I utilize the earnings, or some such comparable basis, variations, having nothing whatsoever to do with the income rate, produce wide variations in this net profit, I do not know where I stand.

Q. You certainly do not, Mr. King. I certainly would like something more definite from you. You have put down figures here on the basis of which an ordinary simple person like myself considers profits on the return of the money put into a firm and told us that the rate in this sample company of yours would be 35.1 per cent; then you ask us to take another basis altogether which produces the extraordinary figure of 5.9 per cent. What I want is something which more clearly reflects the facts of the case.—A. First of all, in the net profit as a percentage of invested capital and surplus, the same amount of net profit is related in this particular case to \$3 million of invested capital and surplus. Net earnings on the other hand are related to the assets used in producing the gross income of those net earnings. And the net earnings, in this case the \$1,775,000, are related to the almost \$30 million. In other words, I am trying to indicate that if you place on the one hand assets that are doing the work you might measure by a comparable and fair basis the return that those assets have secured...

By Mr. Hollingworth:

Q. You seem to have your cake and you are eating it at the same time! No matter how you deduct your interest on borrowed money, in the first instance, with the income tax you are paying it is a relatively small income tax in comparison to the net earnings the income tax would be much greater, and with respect, I think that is begging the question.—A. Well, Mr. Hollingworth, I can assure you that there is no attempt as far as I am concerned to beg the question. What I attempted to do in this first report was to devise a basis whereby we might fairly measure and compare the results of one company with those of another, having in mind that the key to the comparability of the companies in this case is the loans outstanding; that is the common denominator...

Q. I see your reason.—A. And after reviewing the situation of the various companies this factor of parent and subsidiary relationships came into view. On looking over the varying relationships between the 60 and some odd companies over the six year period, which I admit was rather arbitrarily chosen. This 1949 to 1954—roughly, 1954 was the latest date on which the figures were available, and 1949 seemed to be reasonably far removed from the impact of the war. From parent and child relationship in respect to the variations in borrowed money—it thus become quite apparent that the figures for borrowed money and invested capital did not mean the same in a parent-child relationship that they do when you are talking about a completely independent entity where there is no parent-child factor. As I mentioned in the report, when reading the report of March 12, there are obviously some cases where the parent company has invested money in the particular company that is included in this data to carry on business and for one reason or another—and those reasons I do not pretend to know—but for one reason or another which in their judgement seemed to be valid, apparently they put up a high proportion of the total fund in the form of borrowed money rather than in the form of invested capital, and thereby they produced an artificial relationship.

And this 8·1, the \$8 of borrowed money to the \$1 of invested capital in the larger companies—it has an effect only in the case where the Canadian company to which we are referring is a subsidiary of another company.

I was going to mention for Mr. Cameron's benefit that the question of investment in that type of company is an academic one because you, as an investor, have an opportunity to invest in the parent company where more likely the ratio of borrowed money to invested capital is perhaps two to one. I do not think I am begging the question in attempting to vary the percentage of net profit on invested capital or surplus at all. Really it is an attempt to develop a basis whereby this extraneous factor, which is a management decision, in the small loans field of operations is eliminated. What appears is the result of what I mentioned before, of adopting somewhat the same philosophy as applies in public utilities where again this same universal factor applies, because they normally have a high relationship or ratio of borrowed money to invested capital in relation to the ordinary manufacturing business. There again over the years the various legislatures, courts, commissions, and various bodies have finally come to feel that the only common denominator, the only reliable base on which to measure or to calculate the earnings is the assets employed.

Admittedly it is not followed in 100 per cent of the cases, but it is followed in the electrical utilities field in Canada. In the field it is followed almost without exception. And then finally it comes back to this base: what are the assets that are used to produce the interest? What is their true and reasonable current value, and therefore to measure these earnings by the relationship we have to refer to these particular assets.

That is the same type of philosophy that is used in this appendix. I have put in profit figures here in attempting to bring about some guide as to how, with the variations in borrowed money you might expect to find, the net profit varied even though the earnings did not vary or when as suggested in this next report, the projection is made as to what income there would have been had these rates been in effect. To illustrate that fact I can give you some figures by which you can correlate the normal concept of profit of these earnings, a concept which is not normally used but which is used in the public utilities field.

The CHAIRMAN: Are there any further questions on this part of Mr. King's brief?

By Mr. Henderson:

Q. As I understand it, Mr. King, in his brief on page 20 has shown the gross earnings of 1954 as 6·5 per cent, and 4·2 per cent, and the same has been shown in 1955 where they are 6·2 and 6·6 per cent, and on the estimate it is 3·6. On the other hand Mr. MacGregor in his statement has arrived at 12·5 and 5·2 in 1954, and for 1955 he has arrived at 11·8 and 3·1. I would like to know what is the right of this? Or did you arrive at it by different methods? These seems to be a discrepancy in the result.—A. I presume, Mr. Henderson, that you are referring to the figures compared with Mr. MacGregor's table 8?

Q. That is right.—A. For the total of small loans companies for 1955, the gross earnings is 11·8, and for all others, the small companies which are roughly comparable but not quite to the remaining companies, is 5·2.

As pointed out on the heading of this column, gross earnings is before income tax and before interest on borrowed money, whereas the earnings figures referred to on page 20 are before interest but after applicable income taxes, that is, taxes having regard to the quantum of borrowed money that has been taken out of the profit figure; and therefore while gross earnings as pointed out in Mr. MacGregor's tables would be referable, in my own way of thinking, to the assets employed or 107 per cent of outstandings, I would not think that they would be referred to the gross figure because at least income taxes would have to be paid by the companies before there was any amount left for the company, or any for the shareholders themselves.

Q. How is the tax situation in determining the net profit? What is the variation in the tax situation between the larger companies and the small companies? Is there any advantage or disadvantage to the small company or advantage or disadvantage to the large company?—A. The tax rates provide the same rate for the small and the large companies; proportionately, of course; the smaller company with a smaller net income subject to tax pays a lesser percentage of tax than the larger company, because the tax on the first \$20,000 of taxable income is 20 per cent, and on the remainder it is 47 per cent. When income gets into a high figure the tax rate approaches 47 per cent of the income subject to tax; whereas in the company where the taxable income is \$20,000 or less, the company in fact has only to pay the 20 per cent on its taxable income.

Q. I am not sure it is fair to ask you this, but when did you make up this table to arrive at this conclusion?—A. The first report is dated March 12 that is the date that the report was rendered. The second report is dated March 19, and that was the date the report was rendered.

Q. Did you take into account the higher rate as far as you were concerned when you made up your account? Was this done before or after the increase in the bank rate?—A. Oh, the projection as to what would have been the impact of these rates on 1954 or 1955 income—I will explain that in more detail in the next report—was computed without making any change whatsoever except the change in the rate to be earned on the loans outstanding. The rate of interest on borrowed money has not been taken into account and it would not be in the earnings figure. On the other hand it certainly would be in the net profit figure; and presumably the recent rise in the bank rate will have a tendency to depress the net profit which might in fact have some impact on the borrowing power of the companies, and then on the total funds they may have. What the ramifications of that may be I would hesitate to suggest, but they could well be extensive, and it might result as a snowball going down hill.

The CHAIRMAN: Are there any further questions? If not we shall go on to the next part of Mr. King's report.

The WITNESS: Report dated March 19: it appears in the association's brief, and immediately following the large series of tables. That is the March 12th report, reasonably close to the end of this particular brief.

By Mr. St. Laurent (Temiscouta):

Q. Mr. Chairman, on these tables it shows that the small companies pay interest at 6 per cent and the larger companies at $5\frac{1}{2}$ per cent.—A. As I recall, yes, Mr. St. Laurent.

Q. That would be due to the fact that the credit is easier for the larger corporations, or for American capital?—A. No. In the examples that we utilized, the small and large company examples, we did take a half of one point higher for the smaller companies, because it was our opinion, in looking at the figures, that probably a much greater proportion of their total borrowings were from the banks, and thus subjected to the immediate effect of the change in the current bank rate. So that in that particular example we did. The larger companies, on the other hand, as has been mentioned already, usually have a parent in the background which does the borrowing for the organization and, in many cases, that borrowing is on a larger term basis; on the basis of debentures and so forth, and therefore a change in the current bank rate would not necessarily have an immediate impact. Apart from deliberately inserting the half of one per cent point spread between the large and small company, that was all that we used it for.

Q. Yes.—A. The following was addressed to the Canadian Consumer Loan Association by Deloitte, Plender, Haskins and Sells, on March 19, 1956.

Dear Sirs:

As you requested we have reviewed the results of operations for the years 1954 and 1955 of companies subject to the Small Loans Act in order to estimate the effect of the changes in the levels of permitted charges (as proposed in Bill 51) on the operating results of the industry. For this study we have accepted the figures as they appeared in the annual reports of the superintendent of insurance on small loan companies and money-lenders or as supplied to us by various companies including Household Finance Corporation Ltd., a company making loans of \$500 which is not required to report under the Small Loans Act.

Incidentally all companies supplying us with the information are, with the exception of this company, licensees or small loans companies incorporated under the act. Again we have no information as to non-licensees and to the extent of their operations, thus these projections, when referring to the industry, talk only of the industry whose figures are included in the data you already have.

In order to estimate the effect of changes in the level of permitted charges we have taken the reported results for the years ended December 31, 1954 and 1955 and calculated the probable change in income earned on loans in those years that would have resulted from the use of the charges as proposed in Bill 51 on the assumption that any change in rates of charge would not have affected the number or size of loans made in those years. We have also assumed that such changes in rates would not have resulted in any changes in other income and expenses of the companies. In order to show income taxes in fair relation to the figures for estimated income earned on loans, we have adjusted the reported figures for income taxes by the marginal corporate income tax rate (49 per cent for 1954 and 47 per cent for 1955) applicable in each year in respect of the differences between actual and estimated income earned on loans.

Schedule "A" indicates that the 1954 earnings would have been 73.3 per cent of the 1954 actual earnings had charges been 2 per cent per month on loan balances up to \$300, 1 per cent per month on loan balances from \$300

to \$1,000, and $\frac{1}{2}$ per cent per month on balances in excess of \$1,000, instead of the rates actually in effect in that year. Schedule "A2" indicates that on such a rate schedule the 1955 earnings of 41 companies, which supplied us with information on their 1955 operations, would have been 72.9 per cent of their 1955 actual earnings. (*For Schedules "A1" and "A2", see Appendix "B"*).

In the attached schedules we have indicated the probable effect of changes in permitted charges with reference to "earnings". Earnings has been regarded as the gross income from operations less all expenses, except interest on borrowed money, and applicable income taxes. We believe this is the concept of earnings that should be used because it expresses the results of operations of the various companies in comparable terms.

Now, as I mentioned to Mr. Henderson in reply to his question a moment ago, from the standpoint of the small companies, those whose taxable income is \$20,000 or less, this blanket adjustment results in understanding the impact of any downward adjustment in rates on a small company. Because, for every dollar that it loses in income it only adjusts its tax downward by 20 cents. Whereas if the taxable income is in excess of \$20,000, where they pay a higher tax rate, then when there is a reduction of \$1 in gross income their taxes are adjusted by 47 per cent and, thus a net adjustment of 53 cents on the dollar, compared with the small company of 80 cents on the dollar. So that in these estimates, which we will come to in a moment, the impact is understated from the standpoint of these small companies; but not having complete access to their figures and their tax base we felt the only thing to do was to approach it on the industry basis and take a marginal adjustment.

Schedule A-1 attached to this report, which is the first of the two pages attached following the end of page five, indicates that 1954 earnings on the total business of these companies would have been 73.3 per cent of the 1954 actual earnings. The charges used were 2 per cent per month on loan balances up to \$300; one per cent per month on loan balances from \$300 to \$1,000; and one-half of one per cent per month on balances in excess of \$1,000, instead of the rates actually in effect in that year. As is mentioned on the preceding page there were no other changes. Schedule "A-2" which is the next page, indicates that on such a rate schedule the 1955 earnings for 41 companies which supplied us with information on their 1955 operations would have been 72.9 per cent of their 1955 actual earnings.

In the attached schedules we have indicated the probable effect of changes in permitted charges with reference to "earnings". Earnings have been regarded as the gross income from operations less all expenses, except interest on borrowed money, and applicable income taxes. We believe this is the concept of earnings that should be used because it expresses the results of operations of the various companies in comparable terms.

In Schedules "A1" and "A2" we have shown the 1954 and 1955 earnings and adjusted earnings as percentages of the "assets used in the business". We are of the opinion that 107 per cent of the loans outstanding is a reasonable measurement of the tangible assets used in the small loans business. It appears reasonable, therefore, that such is a fair standard to use in this case. Schedule "A1" indicates that the adjusted 1954 earnings would have produced a return of 4.6 per cent on the assets used in the business.

And that compares with 6.2 actually earned in 1954—and Schedule "A2" indicates that the return for 1955 of the 41 companies would have been 4.5 per cent compared with actual return again of 6.2 per cent.

Method of Calculation of Adjusted Earnings

To arrive at the dollar balances of loans in the various rate categories, i.e. under \$300, from \$300 to \$1,000, from \$1,000 to \$1,500, and over \$1,500, and thus subject to varying rates of charge, we used analyses of loan balances as

of current dates of 21 companies which compute charges on all loans on a per cent per month basis. These 21 companies account for approximately 60 per cent of the volume of business represented in Schedules "A1" and "A2". While these analyses were made as of current dates—with reference to the date of this report—it appeared that the proportions of loan balances in the various rate categories thereby obtained were reasonably approximate to those which prevailed in 1954 and were closely approximate to those which prevailed in 1955. Because of the considerable computational difficulties involved, no attempt was made to analyse the loan account balances of the companies which did not compute charges on all loans on a per cent per month basis. A review of the loan account balances of such companies indicated that their loan balance distributions approximated those of the 21 companies referred to above.

Using the figures obtained for loan balances in the various categories, i.e. up to \$300, from \$300 to \$1,000, from \$1,000 to \$1,500, and over \$1,500, and the stated permitted rates of charge the theoretical annual rate on loan balances was obtained. Since we did not have information as to income earned on loans in excess of \$1,500 for all companies, we used rates of 2 per cent per month on balances up to \$300, 1 per cent per month on balances from \$300 to \$1,000, and $\frac{1}{2}$ per cent per month on all balances in excess of \$1,000, whereas Bill 51 proposes to govern rates on loans up to \$1,500 only. However, in the loan balance distributions reported by the 21 companies, the balances of loans originally made for amounts in excess of \$1,500 constituted slightly more than 1 per cent of the total balances outstanding.

On the basis of the experience of some companies we estimated the effective annual rate as being 99 per cent of the theoretical rate. This is somewhat above the percentage secured by some, at least, of the smaller companies.

Having arrived at the estimated effective annual rate applicable to the 21 companies we then computed their estimated 1954 and 1955 income earned on loans, using these rates and the balances of loans outstanding for those years. As a result of this computation we arrived at an estimate of the income earned on loans in 1954 and 1955 stated as a percentage of the reported income earned on loans for those years. In Schedules A1 and A2 we have adjusted the income earned on loans of all companies included therein correspondingly.

As previously stated, other income and expenses were assumed to remain as reported except for income taxes. We have adjusted the reported figures for income taxes by the marginal corporate income tax rate (49 per cent for 1954 and 47 per cent for 1955) prevailing in respect of the differences between actual and estimated income earned on loans.

In calculating the average loans and other contracts outstanding for the various companies we used the simple average of the balances at the beginning and end of the years under review except in those instances in which we had received information as to the balances of loans outstanding as at the beginning of each month in the year under review. In these latter cases, the average outstandings were calculated as $\frac{1}{12}$ of the sum of the twelve monthly balances.

Thus, referring to schedules "A-1", the first column is as indicated, composed of the figures reported by the superintendent of insurance with the addition of those of the Household Finance Corporation Limited which are supplied to us. The second column shows the translation of those figures into the earnings, that is, taking earnings as being gross income less expenses, except interest on borrowed money, and applicable income tax. There is one further adjustment in this case. You will see readily that interest on borrowed money has been deleted and also you will see that income taxes have been increased correspondingly by 49 per cent of the amount of the interest on borrowed moneys. You will also notice that we have included as an expense a provision for bad and doubtful debts and have deleted the recovery of

amounts and the write-off of ledger values in the treatment and handling of bad debts because from an accounting stand point we believe that an appropriate provision has to be made for losses on accounts outstanding in determining that profit or earnings. We understand from the reports of the companies which have been given to us that, with one or two exceptions for which we adjusted, the figures reported as expenses or provisions for bad or doubtful debts were the figures they used in their income tax returns to the Department of National Revenue. We therefore felt, having in mind our experience with the attitude of the Income Tax Department toward the provision for bad debts, that this was probably a reasonable basis to utilize in this case. Nevertheless I do not think that that particular point is too pertinent to the case because the comparison of the third column with the second column is the significant point. You will notice that our estimate for income earnings on large and small loans is \$35,471,000. You will see that the pertinent figures are a comparison of column 3 with column 2 where the income earned on loans is estimated to be 83.6 per cent of the income actually earned on the loans by these companies in 1954. The reduction on the basis of the bill rate is estimated as \$6,958,000. Then there is a reduction with the related adjustment of income tax in column 3 to make it comparable by reason of this reduction in income with column 2, which brings the adjusted earnings for the year 1954 down to \$9,761,464 compared with \$13,310,312 actually earned—in other words a reduction of 26.7 per cent in earnings. To use our factor of earnings to 107 per cent of assets employed, they were actually 6.2 for the year ended December 31, 1954 for the various companies referred to and on the basis of this projection they would have dropped to 4.6 per cent. Similarly for 1955 the 41 companies on which we had information at the time this report was prepared—and actually they were in the process of preparing a report for the Superintendent of Insurance; we did not have them all in—the gross earnings of small and large loan companies totalled \$51,425,121. We estimate that had these rates been in effect in 1955 and had no other changes taken place in income or expenses or in the numbers or size of the loans that the income would have been reduced by \$8,176,000 to \$43,248,000. Correspondingly the adjusted earnings would then be reduced to \$11,635,678 compared with actual earnings of \$15,969,273 or again on our earnings ratio—actually earned 6.2 per cent—the same as in 1954—would in 1955 have dropped to 4.5 per cent, in other words a 27.1 per cent reduction.

As I mentioned earlier I would like to point out that we believe because of the use of the marginal tax rate the impact on the smaller companies is somewhat heavier than the impact shown here, because we have adjusted taxes in respect of the projected decrease in gross income by a blanket 49 or 47 per cent depending on the year, 1954 or 1955, instead of individually for each individual company, because we did not have that detail. From an industry standpoint it is our opinion that, if these assumptions are valid that is that there would not be any other changes in income and loans outstanding if these rates had been in effect in 1954 or 1955 they would have produced a reduction of net earnings in 1954 of not less than 26.7 per cent and in 1955 not less than 27.1 per cent.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Knight:

Q. I would like to ask one question. On page 3 you say:

Because of the considerable computational difficulties involved, no attempt was made to analyze the loan account balances of the companies which did not compute charges on all loans on a per month basis.

Might I ask how they would compute the charges on loans on those other cases which were not computed on the basis of per cent per month.—A. Mr

Knight, with respect to the loans of an original amount up to \$500, to the best of our information, all the companies did compute it on a per cent per month basis because, as I understand it, that is the requirement of the act. As soon as we get into the area above \$500—and this bill proposes to go to \$1,500—we find variations in practice, since there were no laws, rules or agreements governing the practice of various companies. Some companies carried right through and, in their loans where the original amount was more than \$500 they still utilized the per cent per month basis on balance of principal outstanding no matter what rate they may have used. Other companies used what I believe is called a pre-computed rate. That is a case where if a borrower comes in to borrow, say, \$1,000, and he agrees that he will pay it back over a period of 24 months at an agreed rate of interest—

Q. Agreed rate of interest per cent per month or how?—A. Let us say an agreed annual rate of interest. Then they say, you will pay back this particular loan in 24 equal monthly instalments. Then they say, at the stated rate of interest it will require “X” dollars per month to pay back the loan. In the first month the interest element of that payment will be considerably higher than it is in the last payment and, therefore, they have a scale of charts for their own use which set out all these rates per month.

Q. I thank you for simplifying it. I think you are over-simplifying it. Is the answer to my question that these amounts are computed on a per cent per month basis or computed on an annual or per cent per annum basis?—A. Mr. Knight, I presume in most cases they are. For our purposes we scanned the loan distributions, leaving in mind what the companies said, and the rates seemed to be comparable to the per cent per month rates. Since we were making a projection of stated rates which were lower than the going rates we did not need to concern ourselves with what rates the various companies charged on these larger loans because we were scaling it down to the rates set out in the bill. Then we said the difference has to be the reduction because they would not be more than the bill permitted.

Q. In this hypothetical case which you put before us, you made your calculations as if the amount of business in the hypothetical case would have been the same as it actually would if the bill were in fact in existence. Do you consider that your reduced rate of interest to the advantage of the borrower, if this bill had passed, would have increased the business of the loan companies perhaps not to that amount, but to a certain percentage of that amount?—A. We considered all those factors and decided from our point of view the only projection that we could make as accountants which would be meaningful and we hope helpful in understanding the situation, would be one whereby we said, we will freeze every other aspect of the business in 1954 and 1955 except the rates of charge because we did not want to make, as accountants, any assumptions as to what might have been, perhaps, the effect on borrowers, or as to whether or not a reduced rate would have produced a higher demand, nor did we want to make an assumption that a reduced rate, would produce a reduced volume. This might have some effect on the amount of money the companies could borrow. We thought that any assumptions we made on that line would be hypothetical.

Q. If I could be more concise, and put my question more simply you might be able to answer it more simply. Is it your opinion that if the provisions of the bill had been in existence over the past year that the amount of the gross business which the loans companies would have done would have been in excess of what in fact was done. In other words, if you reduce the price of tea, do you sell more tea?—A. The simple answer is as accountants, we felt it was not our business to make any estimates.

Q. What you are telling me is that you are not prepared to express an opinion on the matter?—A. Because I feel that is more in the field of economists and business men.

The CHAIRMAN: Perhaps we should ask Mr. Cawker; he is in the practical field.

Mr. KNIGHT: He is not on the stand.

The CHAIRMAN: The Canadian Consumer Loan Association is on the stand.

Mr. CAWKER: I feel quite sure that it would not have been reasonable for anyone to assume that the volume of business would have increased as the result of the effect of the rates included in Bill 51. The bill itself anticipates supervision of the field up to \$1,500. The two largest lenders in the Canadian field or not, as a matter of policy, make loans to \$1,500. Therefore, the servicing of the field from \$1,000 to \$1,500 remains the responsibility of the Canadian lenders. Now, I will not speak for a couple of the larger firms who are subsidiaries, but I will speak for the small lenders. I have seen some of the projections which Mr. King has done, dealing with individual companies, and they simply, as a matter of economics, would not be able to survive in the field. Therefore, if we make an assumption that the loan balances would increase, we also have to assume that the larger lenders would change their policy and service the field between \$1,000 and \$1,500 and the indications I have had are not that they intend to increase the field which they service at the present time.

Mr. KNIGHT: I want to get this clear in my own mind. It is clear that the loans up to \$300 would not have been affected in either case? The legislation does not affect loans up to \$300?

Mr. CAWKER: It does not affect the rates to the borrower but the fact of the matter is that it would certainly affect the availability to this degree, that is that we smaller Canadian companies would find ourselves locked in the business and faced with the problem of digging ourselves out of it because we could not service the field anticipated by Bill 51.

By Mr. Knight:

Q. As you may have suspected, I am somewhat interested in the borrower. Is it correct that somewhere around 70 per cent of the business done by small loans companies is in the brackets of \$300 or thereabouts—up to \$300?—A. In table 3 on page 11—

Q. Is that the right percentage?—A. In table 3 on page 11 of my brief we do not set it out as a percentage. On a very rough computation in the table on page 11 it would seem that the loans up to \$299 run to approximately 50 per cent.

Q. It is more than 50.

Mr. FULTON: Are you talking about the number of loans or dollars outstanding?

Mr. KNIGHT: Is 72 per cent approximately the figure? Excuse me, the gentleman is again nodding his head. I would like him to answer the question audibly.

Mr. CAWKER: It is related to numbers of loans.

Mr. KNIGHT: I want to get the approximate percentage of the number of loans which are between \$1 or \$299, if that is the extent.

The CHAIRMAN: You want the number of loans, not the dollars?

Mr. KNIGHT: That is right.

The CHAIRMAN: They vary quite a bit, those two figures.

Mr. CAWKER: It is slightly in excess of 50 per cent.

Mr. KNIGHT: No, I think it is much more than that.

Mr. CAWKER: It is about 70 per cent in the number of loans, or close to 60 per cent in dollar value.

Mr. KNIGHT: Is it not true that about 30 per cent of the loans which will be made under the legislation will be loans upon which there will be any loss as compared with the state of affairs if the legislation were not passed?

Mr. CAWKER: Well, this table, of course, of the 70 per cent figure which we finally arrived at here is related only to loans up to \$500; we have the figures from \$500 to \$1,500 with some limitations. That is only for the companies which are licensed under the act presently. We know the number of accounts and the dollar volume of their loans over \$500, and also we have the figures for Household Finance Corporation Limited; but as to the field outside of that we have no idea—I mean the unlicensed ones.

Mr. KNIGHT: I am glad to have that now, and thank you. Now I shall ask you if it is your opinion that the number of loans would increase if the interest rate were to come down, or did you answer that question before?

Mr. CAWKER: Yes, I think I answered it. I cannot see that it would increase from the standpoint of the lenders serving the field now because we are aware that a certain number of lenders would have to withdraw. Now, what might happen in the event that we ended up literally with a monopoly in the hands of the American companies, I would hesitate to hazard a guess.

Mr. KNIGHT: On that basis I shall ask you my final question: if in your opinion people do not borrow money—more people do not borrow money because the interest rate is low? Are you aware that what you are saying is that these people, under the circumstances in which people go to these small loan companies, are simply prepared to borrow no matter what it costs them? Isn't that a logical conclusion to draw from your earlier answer?

Mr. CAWKER: Very definitely, Mr. Knight. They borrowed from the loan sharks.

Mr. KNIGHT: All right; thank you.

The CHAIRMAN: Are there any further questions?

Mr. FOLLWELL: I thought you were finished.

The CHAIRMAN: Have you some questions you wish to ask this witness? The other two witnesses who will be following Mr. King are not here tonight but they will be available tomorrow. We have only three minutes left to go, so I thought that if you only had a question or two we might conclude with Mr. King and go on with the next witnesses tomorrow.

Mr. FOLLWELL: I think with all these figures it would be well—even if we are concluded with his evidence, to have Mr. King here tomorrow in case we came upon something which we did not have a chance to look over previously.

The CHAIRMAN: Well, in that case I suggest we now adjourn until tomorrow at 3.30.

SCHEDULE "A"

SUMMARY OF TOTAL ASSETS, TOTAL LOANS AND OTHER CONTRACTS, BORROWED MONEY AND INVESTED CAPITAL AND SURPLUS OF CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS AS AT DECEMBER 31, 1949 TO 1954 INCLUSIVE AS SHOWN IN REPORTS OF SUPERINTENDENT OF INSURANCE

	December 31, 1949				December 31, 1950			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance.....	\$ 658,809	\$ 561,882	\$ 322,624	\$ 304,142	\$ 681,015	\$ 576,667	\$ 309,328	\$ 334,843
Community Finance.....	2,349,587	2,289,269	982,941	1,150,045	2,790,885	2,685,624	1,383,032	1,196,706
*Household Finance.....	50,143,898	48,141,567	40,060,389	7,738,274	59,363,615	57,005,272	48,584,468	7,750,196
Personal Finance.....	6,116,929	4,864,919	5,097,849	563,690	11,534,830	9,100,489	10,097,849	652,549
Associates Budget Plan.....	—	—	—	—	—	—	—	—
Atlas Thrift Plan.....	239,509	228,697	127,181	100,322	284,081	283,136	159,688	108,909
H. Bell Finance.....	—	—	—	—	—	—	—	—
Bellvue Finance.....	232,338	223,664	161,000	57,043	257,268	244,159	180,923	58,592
Blake Pierce.....	1,276,136	1,235,465	950,000	156,031	1,542,884	1,509,787	1,135,000	136,963
Bradley Finance.....	319,685	316,572	256,265	17,933	301,779	295,182	251,389	26,931
Budget Financing.....	43,035	43,545	24,100	20,646	91,790	89,622	68,575	22,040
Canadian Personal.....	322,383	313,707	169,118	110,806	329,958	321,717	159,182	126,031
Capital Finance (Edmonton).....	83,110	81,746	25,000	48,878	75,448	68,319	15,689	52,990
Capital Finance (Toronto).....	808,896	803,808	687,000	57,911	1,291,831	1,271,516	1,032,000	79,499
Century Credit.....	150,913	134,125	87,000	33,986	181,024	165,020	114,847	28,231
City Loan and Finance.....	—	—	—	—	—	—	—	—
Cobourg Acceptance.....	59,658	57,860	33,000	16,334	88,555	87,945	49,419	23,896
Commercial Acceptance.....	802,739	782,601	517,672	111,614	906,852	878,488	560,000	54,468
Commercial Credit Plan.....	1,408,168	1,312,005	1,210,000	76,937	1,666,953	1,572,268	1,385,000	124,040
Commercial Finance.....	62,092	58,518	24,731	36,757	113,323	109,239	54,037	52,931
Commercial Securities.....	486,876	36,548	26,699	403,307	—	—	—	—
Consolidated Finance Western.....	—	—	—	—	—	—	—	—
Coupland Finance.....	372,142	369,027	297,458	90,559	507,777	502,500	284,150	102,636
Crescent Finance.....	438,163	398,853	132,711	249,803	515,335	465,369	188,679	253,108

STANDING COMMITTEE

December 31, 1952

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance.....	\$ 700,848	\$ 589,274	\$ 290,114	\$ 365,133	\$ 729,094	\$ 628,888	\$ 295,640	\$ 398,214
Community Finance.....	2,989,719	2,909,229	1,532,948	1,225,753	3,386,481	3,290,846	1,876,141	1,273,148
*Household Finance.....	70,455,391	68,791,870	58,403,736	7,742,850	81,926,349	79,818,830	69,655,860	6,634,663
Personal Finance.....	17,630,560	15,570,583	15,597,849	965,667	27,281,846	24,181,444	24,317,849	1,500,770
Associates Budget Plan.....	—	—	—	—	—	—	—	—
Atlas Thrift Plan.....	405,293	403,426	271,711	117,544	369,514	367,914	223,414	121,670
H. Bell Finance.....	—	—	—	—	—	—	—	—
Bellvue Finance.....	318,010	296,365	240,992	58,789	550,873	507,535	448,023	62,758
Blake Pierce.....	1,480,949	1,451,633	1,044,000	223,682	2,031,722	1,985,762	1,525,600	181,404
Bradley Finance.....	302,580	291,866	245,389	25,612	254,310	245,827	175,515	21,042
Budget Financing.....	86,809	85,289	59,989	24,092	76,559	74,840	48,753	25,748
Canadian Personal.....	353,478	342,563	158,646	138,823	307,652	240,098	113,655	143,685
Capital Finance (Edmonton).....	—	—	—	—	—	—	—	—
Capital Finance (Toronto).....	1,159,687	1,129,140	718,500	287,939	1,882,135	1,872,135	1,285,000	293,172
Century Credit.....	152,246	147,348	99,300	27,238	191,659	184,757	133,282	22,328
City Loan and Finance.....	157,768	131,310	100,171	56,614	271,304	266,656	169,000	57,787
Cobourg Acceptance.....	97,879	97,087	55,287	26,293	106,473	98,811	52,000	26,443
Commercial Acceptance.....	1,010,300	987,494	663,115	158,298	1,161,146	1,135,393	683,548	182,279
Commercial Credit Plan.....	1,749,446	1,639,263	1,410,000	171,556	2,054,490	1,951,053	1,560,000	239,970
Commercial Finance.....	173,640	163,909	95,376	57,508	190,020	181,448	97,986	61,483
Commercial Securities.....	—	—	—	—	—	—	—	—
Consolidated Finance Western.....	—	—	—	—	—	—	—	—
Coupland Finance.....	339,771	238,694	156,474	123,062	1,274,067	1,256,316	866,927	220,828
Crescent Finance.....	503,451	461,576	180,001	260,873	336,676	160,101	166,635	135,262
					573,498	521,848	229,160	263,582

December 31, 1951

December 31, 1954

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance.....	\$ 557,941	\$ 363,122	\$ 67,675	\$ 463,895
Community Finance.....	4,164,784	4,017,240	2,536,949	1,390,866
*Household Finance.....	112,600,369	110,295,140	93,390,343	12,840,361
Personal Finance.....	48,898,798	46,466,935	32,122,530	13,938,335
Associates Budget Plan.....	100,000	—	—	99,302
Atlas Thrift Plan.....	327,351	270,762	172,711	142,810
H. Bell Finance.....	36,468	36,277	—	35,754
Bellvue Finance.....	980,537	907,361	818,393	103,306
Blake Pierce.....	2,432,463	2,376,932	1,769,000	276,188
Bradley Finance.....	406,995	397,522	276,000	67,894
Budget Financing.....	66,198	64,207	35,769	29,908
Canadian Personal.....	370,167	364,511	157,072	147,644
Capital Finance (Edmonton).....	—	—	—	—
Capital Finance (Toronto).....	3,227,621	3,200,723	2,378,000	386,298
Century Credit.....	181,089	177,476	115,200	22,529
City Loan and Finance.....	466,411	448,584	277,000	71,157
Cobourg Acceptance.....	—	—	—	—
Commercial Acceptance.....	—	—	—	—
Commercial Credit Plan.....	2,147,265	2,083,963	1,590,000	385,745
Commercial Finance.....	196,113	189,836	83,583	66,937
Commercial Securities.....	—	—	—	—
Consolidated Finance Western.....	398,506	395,677	293,000	68,983
Coupland Finance.....	470,185	140,966	267,048	166,434
Crescent Finance.....	732,901	668,115	328,878	284,139

December 31, 1953

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance.....	\$ 718,600	\$ 483,370	\$ 253,062	\$ 432,891
Community Finance.....	3,746,081	3,631,581	2,184,013	1,330,674
*Household Finance.....	94,836,165	92,718,082	76,286,635	12,458,403
Personal Finance.....	38,592,059	36,235,746	23,948,529	12,174,383
Associates Budget Plan.....	—	—	—	—
Atlas Thrift Plan.....	343,136	341,745	199,748	131,242
H. Bell Finance.....	—	—	—	—
Bellvue Finance.....	954,820	915,809	791,803	85,711
Blake Pierce.....	2,274,382	2,232,627	1,699,700	219,909
Bradley Finance.....	381,701	371,003	283,000	44,866
Budget Financing.....	69,021	66,273	40,690	27,978
Canadian Personal.....	273,938	266,441	86,178	148,178
Capital Finance (Edmonton).....	—	—	—	—
Capital Finance (Toronto).....	3,502,786	3,489,298	2,695,500	336,779
Century Credit.....	190,243	188,287	128,100	21,785
City Loan and Finance.....	347,521	342,175	207,300	64,332
Cobourg Acceptance.....	127,194	124,966	72,000	27,727
Commercial Acceptance.....	1,432,063	1,408,961	852,708	201,414
Commercial Credit Plan.....	1,993,090	1,912,843	1,480,000	326,528
Commercial Finance.....	196,570	185,175	84,908	64,882
Commercial Securities.....	—	—	—	—
Consolidated Finance Western.....	129,210	125,615	82,861	36,658
Coupland Finance.....	360,775	108,845	196,089	139,781
Crescent Finance.....	660,994	630,846	285,475	270,844

* The figures for Household Finance include those of Household Finance Corporation, Ltd., a company making loans in excess of \$500.

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December 31, 1950

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance.....	\$ 306,707	\$ 269,099	\$ 193,750	\$ 75,998
District Finance.....	—	—	—	—
Dollar Finance.....	77,588	74,314	60,609	12,776
Eastern Finance.....	92,266	90,296	83,000	8,322
Empire Finance.....	—	—	—	—
Equitable Finance.....	—	—	—	—
Excel Finance.....	329,293	317,768	215,383	52,860
Fairway Finance.....	—	—	—	—
Family Loan.....	163,653	126,876	132,544	28,795
General Finance Eastern.....	91,475	74,694	—	72,684
General Finance Kentville.....	51,741	50,440	18,284	29,474
General Finance Toronto.....	109,791	105,645	73,030	20,971
General Finance Winnipeg.....	182,538	138,693	107,635	71,647
Globe Mortgage & Loan.....	140,730	138,019	97,099	30,995
Home Finance.....	—	—	—	—
Independent Finance.....	—	—	—	—
Insurance & Discount.....	1,137,823	1,123,890	769,885	167,158
Lucerne Finance.....	—	—	—	—
Maritime Finance.....	462,238	367,315	20,000	402,598
Merchants Finance.....	340,558	336,336	221,371	74,482
Mercury Finance.....	—	—	—	—
Merit Finance.....	102,299	99,853	95,964	1,085
Montreal Acceptance.....	234,483	205,685	82,300	109,004

December 31, 1949

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance.....	\$ 382,147	\$ 355,251	\$ 231,750	\$ 86,261
District Finance.....	—	—	—	—
Dollar Finance.....	125,143	120,620	92,470	22,849
Eastern Finance.....	97,301	95,162	85,500	10,841
Empire Finance.....	—	—	—	—
Equitable Finance.....	—	—	—	—
Excel Finance.....	400,115	384,638	231,378	99,982
Fairway Finance.....	—	—	—	—
Family Loan.....	169,119	129,853	134,296	30,823
General Finance Eastern.....	77,986	—	—	76,629
General Finance Kentville.....	53,207	51,662	16,763	32,936
General Finance Toronto.....	117,008	109,774	73,113	27,618
General Finance Winnipeg.....	205,545	160,762	121,147	74,654
Globe Mortgage & Loan.....	144,887	142,557	89,266	48,010
Home Finance.....	174,167	164,989	86,608	59,266
Independent Finance.....	—	—	—	—
Insurance & Discount.....	1,388,174	1,356,041	969,012	191,069
Lucerne Finance.....	—	—	—	—
Maritime Finance.....	483,559	391,643	19,000	410,151
Merchants Finance.....	446,506	438,343	303,121	91,201
Mercury Finance.....	—	—	—	—
Merit Finance.....	121,281	117,111	109,631	4,187
Montreal Acceptance.....	208,060	231,933	96,200	125,377

December 31, 1952

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance.....	\$ 396,272	\$ 389,565	\$ 215,350	\$ 120,208	\$ 348,994	\$ 330,944	\$ 150,176	\$ 132,499
District Finance.....	—	—	—	—	—	—	—	—
Dollar Finance.....	112,809	106,129	67,824	32,615	137,104	133,115	92,211	31,736
Eastern Finance.....	104,528	102,119	96,500	7,346	107,656	104,370	103,500	3,775
Empire Finance.....	—	—	—	—	—	—	—	—
Equitable Finance.....	—	—	—	—	—	—	—	—
Excel Finance.....	382,342	377,000	215,551	104,242	385,741	381,490	206,343	109,013
Fairway Finance.....	36,404	35,207	23,085	7,347	183,618	174,366	148,400	6,137
Family Loan.....	157,567	114,389	119,051	33,048	160,302	108,910	117,475	34,372
General Finance Eastern.....	—	—	—	—	—	—	—	—
General Finance Kentville.....	50,065	48,495	10,948	35,689	53,340	51,569	12,408	37,570
General Finance Toronto.....	153,574	144,642	100,599	31,527	182,988	164,626	109,875	42,634
General Finance Winnipeg.....	223,431	178,478	144,757	76,156	262,800	216,752	167,472	83,757
Globe Mortgage & Loan.....	145,951	144,224	82,131	55,232	209,361	189,419	138,937	62,294
Home Finance.....	183,656	174,704	86,953	57,881	206,867	196,515	96,786	56,472
Independent Finance.....	—	—	—	—	141,826	139,198	91,150	50,244
Insurance & Discount.....	944,044	856,057	611,885	170,386	1,063,512	1,019,121	691,648	188,333
Lucerne Finance.....	—	—	—	—	—	—	—	—
Maritime Finance.....	486,712	395,373	29,000	408,057	496,531	406,421	44,000	404,959
Merchants Finance.....	456,865	435,772	299,878	103,936	505,087	501,046	326,587	118,075
Mercury Finance.....	—	—	—	—	—	—	—	—
Merit Finance.....	98,636	97,722	81,984	9,676	100,788	98,980	79,205	14,458
Montreal Acceptance.....	286,073	217,541	67,400	150,300	249,601	202,120	28,600	162,770

STANDING COMMITTEE

December 31, 1953

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance.....	\$ 323,219	\$ 322,355	\$ 128,179	\$ 132,658
District Finance.....	151,715	120,305	85,000	54,868
Dollar Finance.....	168,949	161,882	121,062	31,361
Eastern Finance.....	60,055	57,008	51,500	8,269
Empire Finance.....	—	—	—	—
Equitable Finance.....	—	—	—	—
Excel Finance.....	389,407	375,127	207,591	112,048
Fairway Finance.....	253,488	229,486	194,000	19,865
Family Loan.....	165,813	119,117	124,149	33,582
General Finance Eastern.....	—	—	—	—
General Finance Kentville.....	66,391	64,605	21,649	41,146
General Finance Toronto.....	202,321	190,396	106,875	53,633
General Finance Winnipeg.....	274,308	228,022	178,136	87,493
Globe Mortgage & Loan.....	219,785	206,472	132,663	76,056
Home Finance.....	286,599	269,056	142,969	74,380
Independent Finance.....	308,667	335,238	224,791	75,182
Insurance & Discount.....	1,339,333	1,278,521	885,922	209,787
Lucerne Finance.....	—	—	—	—
Maritime Finance.....	556,576	461,802	106,000	409,899
Merchants Finance.....	535,551	524,605	324,519	141,745
Mercury Finance.....	209,429	204,628	176,220	31,948
Merit Finance.....	81,678	75,709	59,799	18,778
Montreal Acceptance.....	312,952	284,121	49,751	188,484

December 31, 1954

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance.....	\$ 331,590	\$ 328,004	\$ 125,650	\$ 139,031
District Finance.....	176,435	167,966	95,929	58,235
Dollar Finance.....	161,117	151,553	103,454	39,855
Eastern Finance.....	56,442	55,035	50,000	6,193
Empire Finance.....	278,175	267,244	202,000	31,467
Equitable Finance.....	117,149	112,940	71,705	29,428
Excel Finance.....	311,927	298,124	135,248	114,428
Fairway Finance.....	345,695	320,899	264,000	30,303
Family Loan.....	134,112	104,729	109,526	15,121
General Finance Eastern.....	—	—	—	—
General Finance Kentville.....	72,801	70,730	24,113	44,443
General Finance Toronto.....	178,544	162,681	80,977	66,430
General Finance Winnipeg.....	270,172	222,470	169,922	91,898
Globe Mortgage & Loan.....	212,036	201,641	116,561	84,881
Home Finance.....	255,936	240,114	124,350	71,125
Independent Finance.....	322,470	316,976	314,200	92,279
Insurance & Discount.....	1,219,083	1,151,073	761,536	232,850
Lucerne Finance.....	255,031	231,931	165,000	63,315
Maritime Finance.....	548,848	463,178	100,000	415,214
Merchants Finance.....	578,087	568,050	334,843	166,695
Mercury Finance.....	264,059	256,848	207,745	44,616
Merit Finance.....	92,771	87,116	67,514	21,229
Montreal Acceptance.....	284,621	257,947	—	207,365

December 31, 1950

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance.....	\$ 169,027	\$ 168,352	\$ 111,415	\$ 42,047	\$ 184,390	\$ 183,622	\$ 117,432	\$ 49,777
National Plan.....	564,338	549,814	340,806	169,564	434,341	411,646	192,923	201,183
Niagara Finance.....	3,732,316	3,636,331	2,730,000	649,244	4,860,761	4,535,753	3,350,000	743,311
North West Mortgage.....	320,600	318,575	214,226	75,304	288,266	282,843	185,329	84,174
O'Neill Finance.....	22,280	18,436	14,300	7,731	32,347	24,413	13,700	18,560
P.F. Credit.....								
Peoples Finance.....	36,564	29,149	3,875	17,924	40,516	36,204	17,234	18,426
Preferred Credit.....	74,109	71,968	42,411	21,369	76,739	73,700	43,000	23,845
Power City Finance.....								
Public Finance.....	2,149,944	1,936,988	1,553,191	165,810	1,733,708	1,539,585	1,342,075	191,262
Regal Finance.....	49,978	27,284		46,516	54,208	50,161		43,882
Reliance Finance.....	77,731	75,935	68,710	8,509	145,787	142,581	108,802	33,749
Rideau Finance.....								
Saguenay Finance.....	98,028	73,263	69,149	20,001	93,635	78,122	62,160	23,241
Schloier & Co.....	80,854	80,303	19,149	43,502	79,369	62,914	14,000	54,414
Security Loan.....	205,326	202,638	149,800	38,755	210,293	206,959	142,000	47,675
Service Finance.....	336,520	318,388	193,185	61,169	314,708	293,116	154,999	75,777
Standard Credit.....	25,083	23,003	18	21,771	22,436	21,546		21,771
Standard Finance.....	22,650	22,567	8,823	6,285	9,606	6,184		6,911
Star Discount.....	478,272	463,656	326,510	71,382	561,909	552,870	402,374	74,395
Sterling Finance.....	174,286	162,993	66,439	92,316	197,249	189,903	77,648	103,706
Strand Finance.....	57,806	51,392		48,279	75,540	70,354	20,599	47,102
Superior Finance.....	166,340	162,874	161,490	(5,577)	183,184	180,233	170,240	1,195
Toro Finance.....	3,971,918	3,880,804	3,675,000	48,984	4,623,613	4,507,653	4,150,000	118,005
Trans Canada.....		- 107,612	68,254	41,756	125,494	110,309	76,255	43,305
Trenton Finance.....								
Union Finance.....	129,511	126,755	74,110	42,761	149,041	146,601	89,217	43,602
Victory Finance.....	14,446	14,306		14,151	11,623	11,597		11,403
Walker, D.A.....								
TOTALS.....	\$ 83,272,932	\$ 78,296,087	\$ 63,174,543	\$ 14,250,447	\$ 101,693,171	\$ 95,201,587	\$ 79,382,507	\$ 14,658,084

STANDING COMMITTEE

December 31, 1952

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance.....	208,239	\$ 207,624	\$ 132,855	\$ 56,426
National Plan.....	464,697	453,730	210,159	211,892
Niagara Finance.....	8,091,157	8,002,068	6,195,000	875,019
North West Mortgage.....	282,875	278,501	165,284	92,528
O'Neill Finance.....	23,215	20,447	13,700	9,431
P F Credit.....				
Peoples Finance.....	113,208	107,993	80,566	17,783
Preferred Credit.....	98,767	94,772	68,258	22,588
Power City Finance.....				
Public Finance.....	1,987,785	1,710,457	1,405,278	313,695
Regal Finance.....	55,014	52,946		43,027
Reliance Finance.....	109,434	105,083	67,413	34,393
Rideau Finance.....				
Saguenay Finance.....				
Scholer & Co.....	93,485	76,970	64,092	21,644
Security Loan.....	86,480	86,480	15,493	54,979
Service Finance.....	235,086	230,651	157,143	56,548
Standard Credit.....	325,313	309,330	172,053	83,153
Standard Finance.....	21,218	19,493		21,104
Star Discount.....	8,666	6,860		5,948
Sterling Finance.....	531,861	519,757	368,018	67,972
Strand Finance.....	179,901	147,547	61,983	108,711
Superior Finance.....	172,558	170,125		46,568
Toro Finance.....	185,534	178,077	163,540	9,772
Trans Canada.....	4,639,674	4,504,030	4,125,000	165,784
Trenton Finance.....	84,270	80,218	35,500	43,333
Union Finance.....				
Victory Finance.....	152,055	149,939	85,756	44,863
Walker, D.A.....	9,538	9,518		9,318
TOTALS.....	\$122,306,784	\$116,967,982	\$ 97,222,555	\$ 15,872,441

December 31, 1951

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance.....	208,239	\$ 201,022	\$ 140,310	\$ 67,377
National Plan.....	464,697	504,140	250,000	229,109
Niagara Finance.....	8,091,157	14,864,425	10,250,000	1,485,432
North West Mortgage.....	282,875	292,302	179,105	93,470
O'Neill Finance.....	23,215	18,667	15,717	8,513
P F Credit.....				
Peoples Finance.....	113,208	206,352	158,453	18,103
Preferred Credit.....	98,767	106,733	68,000	22,343
Power City Finance.....				
Public Finance.....	1,987,785	2,467,848	2,079,038	358,959
Regal Finance.....	55,014	60,142	44,948	7,200
Reliance Finance.....	109,434	181,641	138,542	36,482
Rideau Finance.....				
Saguenay Finance.....				
Scholer & Co.....	93,485	80,211	61,780	26,881
Security Loan.....	86,480	112,211	22,928	63,632
Service Finance.....	235,086	283,406	181,942	65,558
Standard Credit.....	325,313	480,449	300,851	90,785
Standard Finance.....	21,218	18,241	29	19,790
Star Discount.....	8,666			
Sterling Finance.....	531,861	582,099	399,650	75,173
Strand Finance.....	179,901	211,367	80,727	106,523
Superior Finance.....	172,558	67,419	19,875	48,589
Toro Finance.....	185,534	200,511	174,323	18,431
Trans Canada.....	4,639,674	7,659,590	6,170,000	362,382
Trenton Finance.....	84,270	47,733		43,413
Union Finance.....		5,000		
Victory Finance.....	152,055	98,371	53,600	42,160
Walker, D.A.....	9,538	168,024	97,249	46,227
TOTALS.....	\$122,306,784	\$127,958,180	\$ 103,939	\$ 16,792,663

December 31, 1953

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance.....	277,544	\$ 276,368	\$ 176,698	\$ 72,234
National Plan.....	531,058	516,644	225,000	253,309
Niagara Finance.....	18,534,945	18,197,425	12,250,000	4,268,047
North West Mortgage.....	378,573	366,427	234,101	101,228
O'Neill Finance.....	36,293	22,130	18,029	18,225
P F Credit.....				
Peoples Finance.....	304,158	293,825	212,255	23,228
Preferred Credit.....				
Power City Finance.....				
Public Finance.....	3,241,707	2,844,131	2,455,784	403,008
Regal Finance.....				
Reliance Finance.....	203,685	199,538	142,045	38,368
Rideau Finance.....	129,994	124,901	96,000	32,886
Saguenay Finance.....	136,273	130,117	87,615	46,014
Scholer & Co.....	109,604	89,863	68,688	31,139
Security Loan.....	24,612	12,180	5,417	17,788
Service Finance.....	430,988	423,797	342,703	70,337
Standard Credit.....	547,623	523,320	338,886	105,420
Standard Finance.....	16,645	16,151	22	16,569
Star Discount.....				
Sterling Finance.....	589,519	577,822	364,900	89,972
Strand Finance.....	209,861	203,446	59,625	105,349
Superior Finance.....	95,105	92,105	43,563	49,700
Toro Finance.....	231,570	228,782	193,657	27,532
Trans Canada.....	8,916,294	8,737,566	7,550,000	576,247
Trenton Finance.....				
Union Finance.....	652,500	645,001	403,242	231,659
Victory Finance.....	242,855	240,346	153,617	49,310
Walker, D.A.....	8,924	8,892		8,704
TOTALS.....	\$192,886,925	\$186,031,498	\$140,601,521	\$ 36,982,420

December 31, 1954

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance.....	\$ 259,331	\$ 257,715	\$ 158,477	\$ 75,429
National Plan.....	490,754	471,790	170,000	273,840
Niagara Finance.....	23,239,991	22,766,886	15,750,000	4,945,899
North West Mortgage.....	414,440	411,313	260,665	109,470
O'Neill Finance.....	40,945	26,519	20,551	20,372
P F Credit.....	141,673	54,803		117,565
Peoples Finance.....	393,131	375,402	237,739	31,792
Preferred Credit.....				
Power City Finance.....				
Public Finance.....	159,935	153,137	111,739	47,832
Regal Finance.....	2,927,879	2,604,181	2,146,785	436,973
Reliance Finance.....	281,612	277,672	202,632	40,878
Rideau Finance.....	178,085	172,477	138,200	38,159
Saguenay Finance.....	207,939	198,022	150,000	53,865
Scholer & Co.....	136,991	118,840	92,358	38,064
Security Loan.....	20,603	10,557		19,335
Service Finance.....	465,441	450,511	364,800	72,502
Standard Credit.....				
Standard Finance.....				
Star Discount.....				
Sterling Finance.....	444,750	435,578	268,317	80,136
Strand Finance.....	154,620	145,190	87,304	49,137
Superior Finance.....	156,393	155,757	101,053	51,718
Toro Finance.....	238,289	230,023	186,970	36,397
Trans Canada.....	9,449,603	9,157,763	7,750,000	821,949
Trenton Finance.....				
Union Finance.....	1,798,319	1,780,595	1,491,517	258,783
Victory Finance.....	282,758	280,430	164,891	56,456
Walker, D.A.....	9,421	9,283		9,201
TOTALS.....	\$227,120,166	\$219,446,972	\$170,056,702	\$ 40,740,608

SCHEDULE "B"

CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS AS AT DECEMBER 31, 1949 TO 1954
 INCLUSIVE AS SHOWN IN REPORTS OF SUPERINTENDENT OF INSURANCE
 SURPLUS AS A PERCENTAGE OF TOTAL LOANS AND OTHER CONTRACTS
 A—INVESTED CAPITAL AND
 B—BORROWED MONEY AS A
 PERCENTAGE OF INVESTED CAPITAL AND SURPLUS C—TOTAL ASSETS AS A PERCENTAGE OF
 TOTAL LOANS AND OTHER CONTRACTS

	December 31, 1949			December 31, 1950		
	A	B	C	A	B	C
Canadian Acceptance.....	54.1	106.1	117.3	58.1	92.4	118.1
Community Finance.....	50.2	85.5	102.6	44.6	115.6	103.9
Household Finance.....	16.1	517.7	103.4	13.6	626.9	103.3
Personal Finance.....	11.6	904.4	125.7	7.2	1,547.4	126.7
Associates Budget Plan.....	—	—	—	—	—	—
Atlas Thrift Plan.....	43.9	126.8	104.7	38.5	146.6	100.3
H. Bell Finance.....	—	—	—	—	—	—
Bellvue Finance.....	25.5	282.2	103.9	24.0	308.8	105.4
Blake Pierce.....	12.6	608.9	103.3	9.1	828.7	102.2
Bradley Finance.....	5.7	1,429.0	101.0	9.1	933.5	102.2
Budget Financing.....	47.4	116.7	103.4	24.6	311.1	102.4
Canadian Personal.....	35.3	152.6	102.8	39.2	126.3	102.6
Capital Finance (Edmonton).....	59.8	51.1	101.7	77.6	29.6	110.4
Capital Finance (Toronto).....	7.2	1,134.5	100.6	6.3	1,298.1	101.6
Century Credit.....	25.3	256.0	112.5	17.1	406.8	109.7
City Loan & Finance.....	—	—	—	—	—	—
Cobourg Acceptance.....	28.2	202.0	103.1	27.2	206.8	100.7
Commercial Acceptance.....	14.3	463.8	102.6	6.2	1,028.1	103.2
Commercial Credit Plan.....	5.9	1,572.7	107.3	7.9	1,116.6	106.0
Commercial Finance.....	62.8	67.3	106.1	48.4	102.1	103.7
Commercial Securities.....	1,103.5	6.6	1,332.2	—	—	—
Consolidated Finance Western.....	—	—	—	—	—	—
Coupland Finance.....	24.6	251.2	100.8	20.4	276.9	101.1
Crescent Finance.....	62.6	53.1	109.9	54.4	74.5	110.7
Danforth Finance.....	28.2	254.9	114.0	24.3	268.7	107.6
District Finance.....	—	—	—	—	—	—
Dollar Finance.....	17.2	474.4	104.4	18.9	404.7	103.7
Eastern Finance.....	9.2	997.4	102.2	11.4	788.7	102.2
Empire Finance.....	—	—	—	—	—	—
Equitable Finance.....	—	—	—	—	—	—
Excel Finance.....	16.6	407.5	103.6	26.0	231.4	104.0
Fairway Finance.....	—	—	—	—	—	—
Family Loan.....	22.7	460.3	129.0	23.7	435.7	130.2
General Finance Eastern.....	97.3	—	122.5	—	—	—
General Finance Kentville.....	58.4	62.0	102.6	63.8	50.9	103.0
General Finance Toronto.....	19.9	348.2	103.9	25.2	264.7	106.6
General Finance Winnipeg.....	51.7	150.2	131.6	46.4	162.3	127.9
Globe Mortgage & Loan.....	22.5	313.3	102.0	33.7	185.9	101.6
Home Finance.....	—	—	—	35.9	146.1	105.6
Independent Finance.....	—	—	—	—	—	—
Insurance & Discount.....	14.9	460.5	101.2	14.1	507.2	102.4
Lucerne Finance.....	—	—	—	—	—	—
Maritime Finance.....	109.6	5.0	125.8	104.7	4.6	123.1
Merchants Finance.....	22.1	297.2	101.3	20.8	332.4	101.9
Mercury Finance.....	—	—	—	—	—	—
Merit Finance.....	1.1	8,844.6	102.4	3.6	2,618.4	103.6
Montreal Acceptance.....	53.0	75.5	114.0	54.1	60.8	115.6
National Finance.....	25.0	265.0	100.4	27.1	235.9	100.4
National Plan.....	30.8	201.0	102.6	48.9	95.9	105.5
Niagara Finance.....	17.9	423.6	102.6	16.4	450.7	107.2
North West Mortgage.....	23.6	284.5	100.6	29.8	220.2	103.7
O'Neill Finance.....	41.9	185.0	120.9	76.0	73.8	132.5
P F Credit.....	—	—	—	—	—	—
Peoples Finance.....	61.5	21.6	125.4	50.9	93.5	111.9
Preferred Credit.....	29.7	198.5	103.0	32.4	180.3	104.1
Power City Finance.....	—	—	—	—	—	—
Public Finance.....	8.6	936.7	111.0	12.4	701.7	112.6
Regal Finance.....	170.5	—	183.2	87.5	—	108.1
Reliance Finance.....	11.2	807.5	102.4	23.7	322.4	102.2
Rideau Finance.....	—	—	—	—	—	—
Saguenay Finance.....	—	—	—	—	—	—
Schioler & Co.....	27.3	345.7	133.8	29.7	267.5	119.9
Security Loan.....	54.2	44.0	100.7	86.5	25.7	126.2
Service Finance.....	19.1	386.5	101.3	23.0	297.9	101.6
Standard Credit.....	19.2	315.8	105.7	25.9	204.5	107.4
Standard Finance.....	94.6	1	109.0	101.0	—	104.1
Star Discount.....	27.9	140.4	100.4	111.8	—	155.3
Sterling Finance.....	15.4	457.4	103.2	13.5	540.9	101.6
Strand Finance.....	56.6	72.0	106.9	54.6	74.9	103.9
Superior Finance.....	93.9	—	112.5	66.9	43.7	107.4
Toro Finance.....	—	—	102.1	7	14,246.0	101.6
Trans Canada.....	1.2	7,991.9	102.3	2.6	3,516.8	102.6
Trenton Finance.....	38.8	163.5	106.7	39.3	176.1	113.8
Union Finance.....	—	—	—	—	—	—
Victory Finance.....	33.7	173.3	102.2	29.7	204.6	101.7
Walker, D. A.....	98.9	—	101.0	98.3	—	100.

December 31, 1951

A	B	C
62.0	79.5	118.9
42.1	125.1	102.8
11.3	754.3	101.4
6.2	1,615.3	113.2

A	B	C
29.1	231.2	100.5

A	B	C
19.8	409.9	107.3
15.4	466.7	102.0
8.8	958.1	103.7
28.2	249.0	101.8
40.5	114.3	103.2

A	B	C
25.5	249.5	102.7
18.5	364.6	103.3
43.1	176.9	120.1
27.1	210.3	100.8
16.0	418.9	102.3
10.5	821.9	106.7
35.1	165.8	105.9

A	B	C
51.6	127.2	142.3
56.5	69.0	109.1
30.9	179.1	101.7

A	B	C
30.7	208.0	106.3
7.2	1,313.6	102.4

A	B	C
27.7	206.8	101.4
20.9	341.4	103.4
28.9	360.2	137.7

A	B	C
73.6	30.7	103.2
21.8	319.1	106.2
42.7	190.1	125.2
38.3	148.7	101.2
33.1	145.0	105.1

A	B	C
19.9	359.1	110.3

A	B	C
103.2	7.1	123.1
23.9	288.5	104.8

A	B	C
9.9	847.3	100.9
69.1	44.8	131.5
27.2	235.4	100.3
46.7	99.2	102.4
10.9	708.0	101.1
33.2	178.6	101.6
46.1	145.3	113.5

A	B	C
16.5	453.1	104.8
23.8	302.2	104.3

A	B	C
18.3	467.1	116.2
81.3	—	103.9
32.7	196.0	104.1

A	B	C
33.8	296.1	121.5
63.6	28.2	100.0
24.5	277.9	101.9
26.9	206.9	105.2
108.3	—	108.8
86.7	—	126.3
13.1	541.4	102.3
70.3	59.8	121.9
66.4	—	103.5
5.5	1,673.6	104.2
3.7	2,488.2	103.0
54.0	81.9	105.1
—	—	—
29.9	191.2	101.4
97.9	—	100.2

December 31, 1952

A	B	C
63.3	74.2	115.9
38.7	147.4	102.9
8.3	1,049.9	101.4
6.2	1,620.4	112.8

A	B	C
33.1	183.6	100.4

A	B	C
12.4	173.9	104.6
8.9	841.0	102.3
8.6	834.1	103.5
34.4	189.3	102.3
59.8	79.1	128.1

A	B	C
15.7	438.3	100.4
12.1	596.9	103.7
21.7	292.5	101.7
26.8	196.6	107.8
16.1	375.0	102.3
12.3	650.1	105.3
33.9	159.4	104.7

A	B	C
17.6	392.6	101.4
84.5	123.2	210.3
50.5	86.9	109.9
40.0	113.3	105.5

A	B	C
23.8	290.6	103.0
3.6	2,734.5	103.2

A	B	C
28.6	189.3	101.1
3.5	2,418.1	105.3
31.6	341.8	147.2

A	B	C
72.9	33.0	103.4
25.9	257.7	111.2
38.6	199.9	121.2
32.9	223.0	110.5
28.7	171.4	105.3
36.1	181.4	101.9
18.5	367.2	104.4

A	B	C
99.6	10.9	122.2
23.6	276.6	100.8

A	B	C
14.6	547.8	101.8
80.5	17.6	123.5
29.2	208.2	100.3
45.4	109.1	106.6
10.0	690.0	101.2
32.0	191.6	103.3
45.6	184.6	130.0

A	B	C
8.8	875.3	103.1
20.9	304.3	102.3

A	B	C
14.5	579.2	112.9
74.7	16.0	104.2
21.0	379.8	104.4

A	B	C
33.5	229.8	123.8
58.5	34.9	101.4
24.9	277.5	102.8
18.9	331.4	105.3
108.5	108.1	109.3

A	B	C
12.9	531.6	101.8
50.4	75.8	101.9
73.6	40.3	103.8
9.2	945.8	101.2
4.7	1,862.7	102.0
868.3	—	954.7
44.9	127.1	104.7
28.0	210.4	101.6
97.9	—	100.0

December 31, 1953

A	B	C
89.6	58.5	148.7
36.6	164.1	103.2
13.4	612.3	100.8
33.6	196.7	106.5

A	B	C
38.4	152.2	100.4

A	B	C
9.4	923.8	104.3
9.8	772.9	101.9
12.1	630.8	102.9
42.2	145.4	104.1
55.6	58.2	102.8

A	B	C
9.7	800.4	100.4
11.6	588.0	101.0
18.8	322.2	101.6
22.2	259.7	101.8
14.3	423.4	101.6
17.1	453.3	104.2
35.0	130.9	106.2

A	B	C
29.2	226.0	102.9
128.4	140.7	331.5
42.9	105.4	104.8
41.2	96.6	100.3
45.6	154.9	126.1
19.4	386.0	104.4
14.4	622.8	104.2

A	B	C
29.9	185.3	103.8
8.7	976.6	110.5
28.2	369.7	139.2

A	B	C
63.7	52.6	102.8
28.2	199.3	106.3
38.4	203.6	120.3
36.8	174.4	106.4
27.6	192.2	106.5
24.6	299.0	101.1
16.4	422.3	104.8

A	B	C
88.8	25.9	120.5
27.0	228.9	102.1
15.6	551.6	102.3
24.8	318.5	107.9
66.3	26.4	110.1
26.1	244.6	100.4
49.0	88.8	102.8
23.5	287.0	101.9
27.6	231.3	103.3
82.4	98.9	164.0

A	B	C
7.9	913.8	103.5

A	B	C
14.2	609.4	114.0

A	B	C
19.2	370.2	102.1
26.3	291.9	104.1
35.4	190.4	104.7
34.7	220.6	122.0
146.3	30.5	202.4
16.5	487.2	101.2
20.1	321.5	104.6
102.6	.1	103.1

A	B	C
15.6	405.6	102.0
51.8	56.6	103.2
54.0	87.7	103.3
12.0	703.4	101.2
6.6	1,310.2	102.0

A	B	C
35.9	174.1	101.2
20.5	311.5	101.0
97.9	—	100.4

December 31, 1954

A	B	C
127.8	14.6	153.7
34.6	182.4	103.7
11.6	727.3	100.4
30.0	230.5	105.2

A	B	C
52.7	120.9	120.9
98.6	—	100.5
11.4	792.2	108.0
11.6	640.5	102.3
17.1	406.5	102.4
46.6	119.6	103.1
40.5	106.4	101.6

A	B	C
12.1	615.6	100.8
12.7	511.3	102.0
15.9	389.3	104.0
—	—	—
18.5	412.2	103.0
35.3	124.8	103.3

A	B	C
17.4	424.7	100.7
118.1	160.5	333.5
42.5	115.7	109.7
42.4	90.4	101.1
34.7	163.0	105.0
26.3	259.6	106.3
11.3	807.4	102.6
11.8	641.9	104.1
26.1	243.7	103.7
38.4	118.2	104.6
9.4	871.2	107.7
14.4	724.3	128.1

A	B	C
62.8	54.3	102.9
40.8	121.9	109.8
41.3	185.0	121.4
42.1	137.3	105.2
29.6	174.8	106.6
29.1	232.1	101.7
20.2	327.1	105.9
27.3	260.6	110.0
89.6	24.1	118.5
29.3	200.9	101.8
17.4	465.6	102.8
24.4	318.0	106.5
80.4	—	110.3
29.3	210.1	100.6
58.0	62.1	104.0
21.7	318.4	102.1
26.6	238.1	100.8
76.8	100.9	154.4
214.5	—	258.5
8.5	747.8	104.7

A	B	C
31.2	233.6	104.4
16.8	491.3	112.4

A	B	C
14.7	496.4	101.4
22.1	362.2	103.3
27.2	278.5	105.0
32.0	242.6	115.3
183.1	—	195.2
16.1	503.2	103.3

A	B	C
18.4	334.8	102.1
33.8	177.7	106.5
33.2	195.4	100.4
15.8	513.7	102.7
9.0	942.9	103.2

SCHEDULE "C"

SUMMARY OF TOTAL ASSETS, TOTAL LOANS AND OTHER CONTRACTS, BORROWED MONEY AND INVESTED CAPITAL AND SURPLUS OF CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS OTHER THAN SIX OF THE KNOWN SUBSIDIARY COMPANIES AS AT DECEMBER 31, 1949 TO 1954 INCLUSIVE

	December 31, 1949				December 31, 1950			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Total for all companies— per Schedule "A"	\$ 83,272,932	\$ 78,296,687	\$ 63,174,543	\$ 14,250,447	\$101,693,171	\$ 95,201,587	\$ 79,382,507	\$ 14,658,084
Less:								
Canadian Acceptance.....	\$ 658,809	\$ 561,882	\$ 322,624	\$ 304,142	\$ 681,015	\$ 576,667	\$ 309,328	\$ 334,843
*Household Finance.....	50,143,898	48,141,567	40,060,389	7,738,274	59,363,615	57,005,272	48,584,468	7,750,106
Personal Finance.....	6,116,929	4,864,919	5,097,849	563,690	11,534,830	9,100,489	10,097,849	632,549
Blake Pierce.....	1,276,136	1,235,465	950,000	158,031	1,542,884	1,509,787	1,135,000	136,963
Niagara Finance.....	3,732,316	3,636,331	2,750,000	649,244	4,860,761	4,535,753	3,350,000	743,311
Trans Canada.....	3,971,918	3,880,804	3,675,000	45,984	4,623,613	4,507,653	4,150,000	118,005
	\$ 65,900,006	\$ 62,320,968	\$ 52,855,862	\$ 9,457,365	\$ 82,606,718	\$ 77,235,621	\$ 67,626,645	\$ 9,735,867
Net for remaining companies.....	\$ 17,372,926	\$ 15,975,719	\$ 10,318,681	\$ 4,793,082	\$ 19,086,453	\$ 17,965,966	\$ 11,755,862	\$ 4,922,217

December 31, 1952

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Total for all companies— per Schedule "A"	\$122,306,784	\$116,967,982	\$ 97,222,585	\$ 15,872,441	\$159,449,614	\$152,265,236	\$127,958,180	\$ 16,792,663
Less:								
Canadian Acceptance	\$ 700,848	\$ 589,274	\$ 290,114	\$ 365,133	\$ 729,094	\$ 628,888	\$ 295,640	\$ 398,214
*Household Finance	70,455,391	68,791,870	58,403,736	7,742,850	81,926,349	79,818,830	69,655,860	6,634,663
Personal Finance	17,630,560	15,570,583	15,597,849	965,667	27,281,846	24,181,444	24,317,849	1,500,770
Blake Pierce	1,480,949	1,451,633	1,044,000	223,682	2,031,722	1,985,762	1,525,600	181,404
Niagara Finance	8,091,157	8,002,068	6,105,000	875,019	15,042,258	14,864,425	10,250,000	1,485,432
Trans Canada	4,639,674	4,504,030	4,123,000	165,784	7,812,622	7,659,590	6,750,000	362,382
	\$102,998,579	\$ 98,909,458	\$ 85,655,699	\$ 10,338,135	\$134,823,891	\$129,138,939	\$112,794,949	\$ 10,562,865
Net for remaining companies	\$ 19,308,205	\$ 18,058,524	\$ 11,566,886	\$ 5,534,306	\$ 24,625,723	\$ 23,126,297	\$ 15,163,231	\$ 6,229,798

* The figures for Household Finance include those of Household Finance Corporation, Ltd., a company making loans in excess of \$500.

STANDING COMMITTEE

December 31, 1954

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
	\$227,120,166	\$219,446,972	\$170,056,702	\$ 40,740,608
	\$ 557,941	\$ 363,122	\$ 67,675	\$ 463,895
	112,600,369	110,295,140	93,390,343	12,840,361
	48,898,798	46,466,935	32,122,530	13,938,335
	2,432,463	2,376,932	1,768,000	276,188
	23,239,991	22,766,586	15,750,000	4,945,899
	9,449,603	9,157,763	7,750,000	821,949
	\$197,179,165	\$191,426,478	\$150,849,548	\$ 33,286,627
	\$ 29,941,001	\$ 28,020,494	\$ 19,207,154	\$ 7,453,981

December 31, 1953

	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
	\$192,886,925	\$186,031,498	\$140,601,321	\$ 36,982,420
	\$ 483,370	\$ 253,062	\$ 432,891	\$ 12,458,403
	92,718,082	76,286,635	12,174,383	12,174,383
	36,235,746	23,948,529	1,699,700	219,909
	2,274,382	2,232,627	1,250,000	4,268,047
	18,534,945	18,197,425	7,550,000	576,247
	8,916,294	8,737,566		
	\$163,872,445	\$158,604,816	\$121,987,926	\$ 30,129,880
	\$ 29,014,480	\$ 27,426,682	\$ 18,613,595	\$ 6,852,540

Total for all companies—
per Schedule "A",

Less:

Canadian Acceptance.....\$ 718,600
*Household Finance.....94,836,165
Personal Finance.....38,592,059
Blake Pierce.....2,274,382
Niagara Finance.....18,534,945
Trans Canada.....8,916,294

Net for remaining companies.....\$ 29,014,480

* The figures for Household Finance include those of Household Finance Corporation, Ltd., a company making loans in excess of \$500.

SCHEDULE "D"

CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS
AS AT DECEMBER 31, 1949 TO 1954
AS SHOWN IN REPORTS OF SUPERINTENDENT OF INSURANCE.

A—Invested Capital and Surplus as a Percentage of Total Loans and Other Contracts
B—Borrowed Money as a Percentage of Invested Capital and Surplus
C—Total Assets as a Percentage of Total Loans and Other Contracts

	Dec. 31, 1949	Dec. 31, 1950	Dec. 31, 1951	Dec. 31, 1952	Dec. 31, 1953	Dec. 31, 1954
A—RELATIONSHIP OF INVESTED CAPITAL AND SURPLUS TO TOTAL LOANS AND OTHER CONTRACTS OUTSTANDING						
All companies.....	18.2	15.4	13.6	11.0	19.9	18.6
Companies other than six of the known subsidiary companies.....	30.0	27.4	30.6	26.9	25.0	26.6
B—RELATIONSHIP OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS						
All companies.....	443.3	541.6	612.5	762.0	380.2	417.4
Companies other than six of the known subsidiary companies.....	215.3	238.8	209.0	243.4	271.6	257.7
C—RELATIONSHIP OF TOTAL ASSETS TO TOTAL LOANS AND OTHER CONTRACTS OUTSTANDING						
All companies.....	106.4	106.8	104.6	104.7	103.7	103.5
Companies other than six of the known subsidiary companies.....	108.7	106.2	106.9	106.5	105.8	106.9

SCHEDULE "A-1"

EARNINGS OF SMALL LOAN COMPANIES AND MONEY-LENDERS FOR THE YEAR ENDED DECEMBER 31, 1954 AND ADJUSTED EARNINGS AFTER CALCULATING INCOME EARNED ON LOANS AT 2 PER CENT PER MONTH ON BALANCES UP TO \$300, 1 PER CENT PER MONTH ON BALANCES BETWEEN \$300 AND \$1,000, AND $\frac{1}{2}$ PER CENT PER MONTH ON BALANCES IN EXCESS OF \$1,000

	As reported by Superintendent of Insurance For Canada ¹	Earnings (after eliminating interest on borrowed money and adjusting bad debts expense and income taxes)	Earnings Adjusted for above stated rates
INCOME:			
Income earned on small and large loans....	\$ 42,430,040	\$ 42,430,040	\$ 35,471,513
Income earned on conditional sales agree- ments and other contracts.....	1,925,111	1,925,111	1,925,111
Recovery of amounts written off.....	216,061	—	—
Other income.....	27,656	27,656	27,656
TOTAL INCOME.....	\$ 44,598,868	\$ 44,382,807	\$ 37,424,280
EXPENSES—OTHER THAN INCOME TAXES:			
Interest on borrowed money.....	\$ 7,242,308	—	—
Written off ledger values.....	969,783	—	—
Advertising.....	1,674,453	1,674,453	1,674,453
Salaries and directors' fees.....	9,091,843	9,091,843	9,091,843
Other expenses.....	6,204,023	6,204,023	6,204,023
Provision for bad and doubtful debts ²	—	1,734,932	1,734,932
TOTAL EXPENSES OTHER THAN INCOME TAXES.....	\$ 25,182,410	\$ 18,705,251	\$ 18,705,251
GROSS PROFIT.....	\$ 19,416,458	—	—
GROSS EARNINGS.....	—	\$ 25,677,556	\$ 18,719,029
INCOME TAXES.....	8,818,513	12,367,244	8,957,565
NET PROFIT AS REPORTED³.....	\$ 10,597,945	—	—
EARNINGS (after applicable income taxes but before interest).....	—	\$ 13,310,312	—
ADJUSTED EARNINGS.....	—	—	\$ 9,761,474
ADJUSTED EARNINGS AS A % OF 1954 EARN- INGS.....	—	—	73.3%
NET EARNINGS AS A % OF 107% OF AVERAGE OUTSTANDINGS.....	—	6.2%	4.6%

¹ Included in these figures are those for Household Finance Corporation, Limited a company which makes loans in excess of \$500. ² These figures comprise bad debts written off, net increases in reserves for bad debts less recoveries of amounts written off. ³ These figures do not take into account any increase or decrease in reserves for bad debts.

SCHEDULE "A-2"

EARNINGS OF FORTY-ONE SMALL LOAN COMPANIES AND MONEY-LENDERS FOR THE YEAR ENDED DECEMBER 31, 1955 AND ADJUSTED EARNINGS AFTER CALCULATING INCOME EARNED ON LOANS AT 2 PER CENT PER MONTH ON BALANCES UP TO \$300, 1 PER CENT PER MONTH ON BALANCES BETWEEN \$300 AND \$1,000, AND $\frac{1}{2}$ PER CENT ON BALANCES IN EXCESS OF \$1,000

	As reported to Superintendent of Insurance For Canada ¹	Earnings (after eliminating interest on borrowed money and adjusting bad debts expense and income taxes)	Earnings Adjusted for above stated rates
INCOME:			
Income earned on small and large loans...	\$ 51,425,121	\$ 51,425,121	\$ 43,248,527
Income earned on conditional sales agreements and other contracts.....	1,731,460	1,731,460	1,731,460
Recovery of amounts written off.....	209,038	—	—
Other income.....	43,355	43,355	43,355
TOTAL INCOME.....	\$ 53,408,974	\$ 53,199,936	\$ 45,023,342
EXPENSES—OTHER THAN INCOME TAXES:			
Interest on borrowed money.....	\$ 9,179,919	—	—
Written off ledger values.....	1,172,987	—	—
Advertising.....	1,928,922	\$ 1,928,922	\$ 1,928,922
Salaries and directors' fees.....	10,069,888	10,068,888	10,068,888
Other expenses.....	8,687,606	8,687,606	8,687,606
Provision for bad and doubtful debts ²	—	2,414,487	2,414,487
TOTAL EXPENSES OTHER THAN INCOME TAXES.....	\$ 31,039,322	\$ 23,100,903	\$ 23,100,903
GROSS PROFIT.....	\$ 22,369,652	—	—
GROSS EARNINGS.....	—	\$ 30,099,033	\$ 21,922,439
INCOME TAXES.....	9,815,198	14,129,760	10,286,761
NET PROFIT AS REPORTED³.....	\$ 12,554,454	—	—
EARNINGS (after applicable income taxes but before interest).....	—	\$ 15,969,273	—
ADJUSTED EARNINGS.....	—	—	\$ 11,635,678
ADJUSTED EARNINGS AS A % OF 1955 EARNINGS.....	—	—	72.9%
NET EARNINGS AS A % OF 107% OF AVERAGE OUTSTANDINGS.....	—	6.2%	4.5%

¹ Included in these figures are those for Household Finance Corporation, Limited a company which makes loans in excess of \$500. ² These figures comprise bad debts written off, net increases in reserves for bad debts less recoveries of amounts written off. ³ These figures do not take into account any increase or decrease in reserves for bad debts.

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Canada Banking and Commerce
Standing Committee on 1956
HOUSE OF COMMONS

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Third Session—Twenty-second Parliament

1956

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 23

Bill 51

An Act to amend the Small Loans Act

WEDNESDAY, AUGUST 1, 1956

WITNESSES:

Messrs. Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants; H. P. Herington, F.C.A., Senior Toronto Partner, Price Waterhouse & Co., Chartered Accountants; Courtland Elliott, C.B.E., Investment Counsellor; and Fernand S. Picard, President, Lucerne Finance Corp. Ltd.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Gingues	Pallett
Ashbourne	Gour (<i>Russell</i>)	Philpott
Balcom	Hamilton (<i>York West</i>)	Power (<i>Quebec South</i>)
Batten	Hanna	Rea
Bell	Henderson	Regier
Benidickson	Hollingworth	Robichaud
Blackmore	Holowach	Rouleau
Cameron (<i>Nanaimo</i>)	Huffman	St. Laurent
Carrick	Knight	(<i>Temiscouata</i>)
Crestohl	Low	Thatcher
Deslieres	MacEachen	Tucker
Enfield	Macnaughton	Viau
Eudes	Matheson	Vincent
Fairey	Meunier	Weaver
Fleming	Michener	White (<i>Hastings-</i>
Follwell	Monteith	<i>Frontenac</i>)
Fulton	Nickle	White (<i>Waterloo South</i>)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, August 1, 1956

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Deslieres, Enfield, Eudes, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Holowach, Hunter, Knight, Matheson, Michener, Monteith, Pallett, Power (*Quebec South*), St. Laurent (*Temiscouata*), Tucker and Weaver.

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants; H. P. Herington, F.C.A., Price Waterhouse & Co., Chartered Accountants; and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. King was again called; he continued his evidence on that portion of the brief of Canadian Consumer Loan Association which had been prepared by Deloitte, Plender, Haskins and Sells. He was questioned thereon, and was retired. Mr. Cawker answered questions specifically referred to him.

Mr. Herington was called; he presented that portion of the brief of Canadian Consumer Loan Association which had been prepared by Price Waterhouse & Company.

Mr. Herington being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Bell, Benidickson, Cameron (*Nanaimo*), Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hanna, Hunter, Knight, Macnaughton, Matheson, Michener, Pallett, Robichaud and St. Laurent (*Temiscouata*).

In attendance: The same as at the afternoon sitting with the addition of Messrs Courtland Elliott, C.B.E., Investment Counsellor, and Fernand S. Picard, President, Lucerne Finance Corp. Ltd.

Mr. Herington continued his evidence, was questioned and was retired.

Mr. Elliott was called; he addressed the Committee on aspects of Canadian equity investments.

At 9.05 p.m. Mr. Hunter withdrew from the meeting and the Vice-chairman, Mr. Deslieres, took the Chair. At 9.12 p.m. Mr. Hunter having returned, resumed the Chair.

Mr. Elliott was questioned and was retired.

Mr. Picard was called; he read in French a brief, copies of which, in English and French, had been distributed to members of the Committee.

Mr. Picard being still before the Committee, at 10.05 o'clock p.m. it adjourned until 11.30 o'clock a.m. on Thursday, August 2, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, August 1, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We will continue with the evidence of the Canadian Consumer Loan Association.

Mr. C. M. CAWKER, (*President, Canadian Consumer Loan Association*): Mr. Chairman, as the concluding part of Mr. King's evidence, which forms part of the Canadian Consumer Loan Association's brief, he will in a few moments indicate the effect of this legislation on the individual Canadian companies. Yesterday he dealt with broad and theoretical problems concerning the whole field; today he will give his estimate of the impact of the bill on certain individual companies which he will name.

Mr. MacGregor in his evidence said that some companies will and some will not go out of business. I have been quite definite in my statements regarding the effect on those companies, other than the six known subsidiaries, and the likelihood of monopoly and the withdrawal of a phase of the service from the borrower. I will ask Mr. King now to give you the reasons why I have been so definite.

Mr. Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants, called:

The WITNESS: Mr. Chairman and hon. members: these estimates as to the impact of the proposed legislation are in two sections, the first, relating to all the Canadian independent companies, has been prepared recently in response to a question directed to Mr. Cawker during his presentation; the second group of figures is included in three reports, copies of which are available, which relate specifically to 12 Canadian companies. They were prepared in order to estimate the impact of this legislation on typical local companies. If you will turn to the association brief, on page 20 thereof you will see set out the earnings as a percentage of the assets employed for all companies, for six of the known subsidiaries and then for the remaining companies. You will notice that in 1954 the actual earnings were, for the remaining companies, 4.2 per cent. It is estimated that on the basis of the rates proposed in Bill No. 51 applied to the proposed revised area of regulation the earnings on the remaining companies will drop to 3.2 per cent. The corresponding figures for 1955 are 3.6 per cent and 2.5 per cent. If you will turn to page 24, the 1954 results have been stated with reference to invested capital and surplus and there you will notice that for all companies the 1954 actual return, related to the book invested capital and surplus, is 23.6 per cent for six of the known subsidiaries and, for the remaining companies, 10.4 per cent on the invested capital and surplus.

Further down in that same right hand column it has been estimated that, on the basis of the proposed bill, the profits in 1954, had these rates of charge been in effect, would have resulted in a return of 6.5 per cent on the invested capital and adjusted surplus.

It is in respect of these remaining companies that the ensuing figures are significant. In our report dated March 19, 1956, which was presented last

evening, it was estimated that, for the industry as a whole, the proposed legislation would produce a reduction of 16·4 per cent in gross income earned on loans. We now take that industry estimate and apply it to the figures reported by each of the licensees for the year 1954. The figures for 1954 are the most recent I am able to use because they are the only ones that are at present, at least, published; the data included in Mr. MacGregor's presentation is not quite complete enough to permit me to make this adjustment. We applied this estimated reduction of 16·4 per cent in the gross income earned on loans to the income actually reported by these 58 licensees in all aspects of their business, that is, the area previously known as the small loans business up to \$500, and other loans and, in some cases, on conditional sales agreements—and those factors have been taken into account in the estimate for the industry as a whole. Without going into technical details, if the same basis of reduction as used for the industry is applied to the individual companies, we would find that of 58 companies—and I exclude one because it had not started business—had these rates been in effect in 1954, 44 of these companies would have had a return of less than 10 per cent of net profit on invested capital and adjusted surplus.

To run down the list—I will read that specific computation in respect of each of these 44 companies—we find that the results would have been as follows: Bellvue Finance, 9·5; Saguenay Finance, 8·7— If I might make a suggestion, members of the committee who wish to tabulate these results might care to take table 4 presented by Mr. MacGregor which sets out an alphabetical list of the companies. You can, if you wish, take that tabulation and place the figures opposite the names of the company in each case.

To repeat, the results would have been: Bellvue Finance, 9·5; Saguenay Finance, 8·7; Bradley Finance, 8·7; Insurance and Discount, 8·3; City Loan and Finance, 8·1; Union Finance, 7·3; Rideau Finance, 7·2; General Finance, Kentville, 7·0; National Plan, 6·9; Atlas, 6·7; Public, 6·6; Sterling Finance, 6·6; O'Neill Finance, 6·4; Security Loan, 6·1; Coupland Finance, 6·0; District, 6·0; Service, 5·8; Peoples Finance, 5·5; Danforth Finance, 5·4; Budget, 4·6; Superior, 4·5; Crescent Finance, 4·4; Maritime, 4·4; Montreal Acceptance, 4·2; Century, 4·2; Commercial Finance, 4·0; Merchants Finance, 3·5; Community, 3·3; Globe, 3·1; H. Bell Finance, 2·6; North West Mortgage, 2·2; Reliance, 1·7; General Finance, Winnipeg, 0·6; National Finance, 0·3. The following ten companies did show a loss: Canadian Personal, Eastern, Empire, Equitable, Excel Finance, Family Loan, Home Finance, Power City, P. F. Credit and Victory Finance. These do not take in all the companies listed on Mr. MacGregor's table because there are some further companies recently formed. These percentages are the percentage of net profit to adjusted equity capital; that is, the actual return to the proprietor calculated as a percentage of his investment.

By Mr. Fulton:

Q. What would the average of those be?—A. I am sorry, Mr. Fulton, but I have not calculated a specific average for these 44 companies.

In summary, of the 44 there are 8 that had a 7 per cent or more return; ten had a loss; leaving 26 with between a fraction of one per cent and something over 6 per cent return on invested capital.

Because of significant variations in conditions in the small loans industry in Canada, it appears appropriate to attempt to ascertain the effect of this legislation upon a representative Canadian company. To this end we reviewed the operations of those same companies and, out of those which had supplied us with information as to their 1955 and 1954 results, a number of the companies which had a significant proportion of their total business in the area proposed to be regulated by this legislation, we selected a random sample.

The three reports to which I referred a moment ago deal with 12 specific companies which were selected on this basis. Mr. Chairman, if it would be possible to have the copies of each of the three sets of statements distributed to the members I think it would be helpful.

First of all, would you please take the report dated April 17? We will deal with the reports dated April 24 and April 30 together in a moment. In reference to the report dated April 17, as the first stage in reviewing this problem to determine the possible impact of the bill on what might be termed a few typical Canadian companies, after studying the problem involved it readily became apparent that there was a very considerable amount of computational work involved were we to try to make the calculation for every company reporting. Therefore we thought that it would be sufficient for this purpose if we used what might be called a fair sample. We thought that 20 per cent probably was a reasonable sample. The closest round figure 20 per cent of 58 companies is 12. So we went down the list and picked 12 companies with the first criteria being that they should have a reasonable and substantial portion of their total volume of business in the area proposed to be regulated by Bill 51. On that basis, and that basis alone, were these 12 companies selected with the thought that here were roughly 20 per cent of the companies involved, all of which had a reasonable portion of their business in the area to be regulated and all of whom might be said to be Canadian companies.

The following letter is addressed to the Canadian Consumer Loan Association and is dated April 17, 1956.

Dear Sirs:

In our report dated March 19, 1956, we set out our estimate of the effect of the rates of charge as proposed by Bill 51 upon the earnings of the companies reporting under the Small Loans Act (including Household Finance Corporation Ltd., a company making loans of over \$500 which is not presently required to report). Using the same basic approach as was followed in estimating the effect of this level of permitted charges on the industry, we have estimated the effect upon a number of individual reporting companies. Each of these companies has a substantial volume of its total business in the area (loans up to \$1,500) which is proposed to be brought within the scope of the Small Loans Act.

In each case we have arrived at our estimate using information supplied by each company as to the character of their individual loan business and rates of charge. The schedules attached hereto, numbered 1, 2, 3, and 4 contain the following information:

Schedule 1 shows the percentage of business which we estimate that the loans of an original amount of under \$1,500, and the remainder of the business, bore to the total business. The percentages shown against "Total" of 82 per cent and 18 per cent respectively are based on the total dollar value of business of these companies and are not a mean of the other percentages.

Schedule 2 shows the percentage comparisons of actual earnings and estimated earnings (using the rates proposed in Bill 51) for the years 1954 and 1955 to the assets employed (107 per cent of loans and other contracts outstanding) in those years.

Schedules 3, and 4 show the percentages comparisons of actual net profits and estimated net profits for the years 1954 and 1955 to the invested capital and surplus.

Yours truly,

(Signed) DELOITTE, PLENDER, HASKINS & SELLS.

SCHEDULE 1

CANADIAN CONSUMER LOAN ASSOCIATION

PERCENTAGE OF BUSINESS OF TWELVE COMPANIES AS AT DECEMBER 31, 1955

SUBJECT TO REGULATION UNDER PROPOSALS IN BILL 51

	Percentage of Business	
	Loans of an Original Amount of Under \$1,500	Remainder
	%	%
Bellvue Finance Corporation Limited.....	71	29
Community Finance Corporation Limited.....	90	10
Dollar Finance Corporation Limited.....	86	14
General Finance Corporation Limited—Toronto.....	39	61
Independent Finance Corporation Limited.....	67	33
Lucerne Finance Corporation Limited.....	84	16
Mercury Finance Limited.....	59	41
National Plan Corporation Limited.....	54	46
Niagara Finance Company Limited.....	92	8
Power City Finance Company Limited.....	94	6
Trans Canada Credit Corporation Limited.....	58	42
Union Finance Company Limited.....	88	12
Total.....	82	18

SCHEDULE 2

CANADIAN CONSUMER LOAN ASSOCIATION

EARNINGS OF TWELVE COMPANIES FOR THE YEARS 1954 AND 1955
 COMPARED WITH ESTIMATED EARNINGS BASED ON RATES OF CHARGE PROPOSED IN BILL 51

	Earnings as a Percentage of Assets Employed			
	1954		1955	
	Actual	Estimated	Actual	Estimated
	%	%	%	%
Bellvue Finance Corporation Limited.....	4.7	3.6	4.0	2.5
Community Finance Corporation Limited.....	3.9	2.7	3.6	2.5
Dollar Finance Corporation Limited.....	9.2	5.8	8.2	4.9
General Finance Corporation Limited—Toronto.....	9.0	7.1	9.5	5.4
Independent Finance Corporation Limited.....	7.5	5.8	5.6	4.4
Lucerne Finance Corporation Limited.....	6.2	5.0	3.5	2.7
Mercury Finance Limited.....	7.1	6.1	7.9	6.3
National Plan Corporation Limited.....	5.0	4.6	5.0	4.6
Niagara Finance Company Limited.....	4.6	3.2	4.5	3.0
Power City Finance Company Limited.....	—	—	8.8	4.2
Trans Canada Credit Corporation Limited.....	4.9	4.2	5.6	4.2
Union Finance Company Limited.....	4.1	3.3	4.1	3.4

SCHEDULE 3

CANADIAN CONSUMER LOAN ASSOCIATION

NET PROFIT OF TWELVE COMPANIES FOR THE YEAR 1954
 COMPARED WITH ADJUSTED NET PROFIT BASED ON RATES OF CHARGE PROPOSED IN BILL 51

	1954		1954	
	Reported		Estimated	
	Net Profit	Per cent return on Capital and Surplus	Net Profit	Per cent return on Capital and Estimated Surplus
	\$	%	\$	%
Bellvue Finance Corporation Limited.....	23,773	23.0	8,811	9.5
Community Finance Corporation Limited.....	90,192	6.5	44,751	3.3
Dollar Finance Corporation Limited.....	10,245	25.7	4,575	13.4
General Finance Corporation Limited—Toronto.....	12,797	19.3	8,733	14.0
Independent Finance Corporation Limited.....	18,577	20.1	10,810	12.8
Lucerne Finance Corporation Limited.....	9,447	15.4	6,986	11.5
Mercury Finance Limited.....	12,668	28.4	8,426	20.9
National Plan Corporation Limited.....	20,531	7.5	18,728	6.9
Niagara Finance Company Limited.....	677,852	13.7	357,244	7.7
Power City Finance Company Limited.....	(Commenced business February 1954)			
Trans Canada Credit Corporation Limited.....	245,703	29.9	182,089	24.0
Union Finance Company Limited.....	27,123	10.5	18,208	7.3

SCHEDULE 4

CANADIAN CONSUMER LOAN ASSOCIATION

NET PROFIT OF TWELVE COMPANIES FOR THE YEAR 1955
 COMPARED WITH ADJUSTED NET PROFIT BASED ON RATES OF CHARGE PROPOSED IN BILL 51

	1955		1955	
	Reported		Estimated	
	Net Profit	Per cent return on Capital and Surplus	Net Profit	Per cent return on Capital and Estimated Surplus
	\$	%	\$	%
Bellvue Finance Corporation Limited.....	19,903	16.6	(3,025)	Nil
Community Finance Corporation Limited.....	84,992	6.1	33,518	2.5
Dollar Finance Corporation Limited.....	7,858	19.1	3,157	8.7
General Finance Corporation Limited—Toronto.....	12,223	15.5	4,273	6.0
Independent Finance Corporation Limited.....	17,487	12.2	9,274	6.9
Lucerne Finance Corporation Limited.....	5,385	7.8	2,880	4.4
Mercury Finance Limited.....	15,843	28.9	9,589	19.7
National Plan Corporation Limited.....	20,620	7.0	18,689	6.4
Niagara Finance Company Limited.....	827,669	14.3	405,388	7.5
Power City Finance Company Limited.....	13,622	20.2	3,776	6.6
Trans Canada Credit Corporation Limited.....	387,103	32.0	219,226	21.1
Union Finance Company Limited.....	51,508	16.6	34,180	11.7

() denotes loss.

Schedule 1 shows, by companies, for these Canadian companies, the percentage of business that is proposed to be subjected to regulation, and the percentage of business which will still remain outside the scope of the regulation, either because it is made up of loans of an original amount greater than \$1,500 or because it is derived from the financing of conditional sales agreements and other income. They vary from a high of 94 per cent for Power City Finance Company Limited to a low of 39 per cent for General Finance Corporation Limited, Toronto.

Schedule 2 sets out the earnings of these companies as a percentage of the assets employed; that is the formula developed in our report dated March 12 for each of these companies for the two years, 1954-1955.

Schedule 3 sets out the reported and adjusted net profits of their total business. The two succeeding reports will deal only with the area of business which is the subject of regulation. The figures in this report deal with their total business, including income from other sources which will not be subject to the proposed legislation for 1954.

Schedule 4 contains the same information for each of these 12 companies for 1955.

As I mentioned last night our earnings base is a basis for comparison. It indicates that for Bellvue Finance Corporation Limited in 1954 the earnings dropped from 4.7 per cent to 3.6 per cent; for Community Finance Corporation Limited they dropped from 3.9 to 2.7; for Dollar Finance Corporation Limited they dropped from a high of 9.2 to 5.8.

This might be corrolated or compared—they cannot be correlated, but they may be compared—with variations in the net profits stated as a percentage of the equity capital.

For 1954 you will notice that for Bellvue Finance Corporation Limited the net earnings go down from 4.7 per cent to 3.6 per cent. In other words, the drop is relatively small in terms of percentage points. The net profits as a percentage of equity dropped from 23.0 per cent to 9.5 per cent.

For Community Finance Corporation Limited the net earnings dropped from 3.9 to 2.7, and the net profits dropped from 6.5 to 3.3; and similarly for the other companies and similarly for the 1955 figures.

Now, if you will turn to the next two reports, the one bearing the date of April 24 and that bearing the date of April 30. The first report, dated April 24, deals with the impact of the bill upon that area of the company's business which is subject to control—which will be subject to the control of the Small Loans Act if the proposed amendments go through, and it gives the return and adjusted return stated in terms of percentage of net profit on invested equity.

The report dated April 30 gives these adjustments in terms of earnings. With the report of April 30 the figures may be compared with the report dated April 24 in the same fashion as I have outlined for the report dated April 17.

“April 24, 1956.

Dear Sirs:

In our report dated April 17, 1956, we set out our estimate of the effect of the rates of charge as proposed by Bill 51 upon the earnings of a number of individual companies. These computations showed the effect upon the business of the companies as a whole. The rates of charge as proposed by Bill 51, however, would only affect the business carried on in loans of an original amount of under \$1,500.

We have, therefore, computed estimates for the companies concerned, arriving at the net profit obtained by separating income and expenses on loans up to \$1,500, from other income and expenses for the years 1954 and 1955, and attach hereto a schedule showing the percentage return of such net profit to the related invested capital and surplus, and the estimated percentage return obtained by applying the rates proposed by Bill 51 to the operations of those years.

For purpose of separating income and expenses we used the figures reported by the companies as relating to their business on loans up to \$500, and added to this amount our estimate of the portion of income and expenses of the remainder of the business which applied to loans between \$500 and \$1,500.

As a basis for this estimate we used analyses of loan balances of the individual companies as of current date, which, as mentioned on page 3 of our report of March 19, 1956, we consider were reasonably approximate to the rate categories prevailing in 1954 and were closely approximate to those which prevailed in 1955. We then computed the percentage which the total of the balances of the loans of an original amount of over \$1,500, added to the balances of other contracts, bore to the total balances of the large loan business. Using this percentage obtained, we separated that portion of the income and expenses (including income tax) which related to business outside the proposed scope of Bill 51.

The figure of net profit resulting by adding together the profit on loans up to \$500 and the estimated profit on loans from \$500 to \$1,500, was related to that figure of invested capital and surplus obtained by deducting from the whole, the percentage which business outside the scope of the bill, as arrived at above, bore to the total business. This return of net profit is shown in the attached schedule in the columns headed "Reported" for the years 1954 and 1955.

The rates as proposed by Bill 51 were then applied to the income to arrive at the estimated reduction of profit. This amount was deducted from the net profit before taxes, and taxes were recalculated at the applicable income tax rate for the year. The estimated net profit, as a percentage of invested capital and reduced surplus (i.e. earned surplus as calculated, from which was deducted the reduction in net profit) appears in the columns headed "Estimated on Adjustment" for the years ended 1954 and 1955.

Yours truly,

(Signed) DELOITTE, PLENDER, HASKINGS & SELLS"

CANADIAN CONSUMER LOAN ASSOCIATION

REPORTED NET PROFITS OF SMALL LOANS COMPANIES
ESTIMATED APPLICABLE TO LOANS UP TO \$1,500 FOR 1954 AND 1955
AND ESTIMATED ADJUSTMENT TO BILL 51 RATES

Company	1954		1955	
	Percent Net Profit to Invested Capital and Surplus		Percent Net Profit to Invested Capital and Surplus	
	Reported	Estimated on Adjustment	Reported	Estimated on Adjustment
	%	%	%	%
Bellvue Finance Corporation Limited.....	20.7	Loss	10.7	Loss
Community Finance Corporation Limited.....	5.8	2.2	5.0	0.1
Dollar Finance Corporation Limited.....	25.1	10.3	19.0	6.6
General Finance Corporation Limited—Toronto.....	12.3	Loss	12.6	Loss
Independent Finance Corporation Limited.....	19.9	7.6	10.9	2.2
Lucerne Finance Corporation Limited.....	18.1	14.0	9.6	5.8
Mercury Finance Limited.....	24.2	9.6	23.5	4.2
National Plan Corporation Limited.....	8.7	7.3	7.2	5.9
Niagara Finance Company Limited.....	13.4	6.9	14.0	6.7
Power City Finance Company Limited.....	—	—	20.1	5.4
Trans Canada Credit Corporation Limited.....	29.5	18.4	30.2	8.2
Union Finance Company Limited.....	9.7	5.5	15.6	9.9

The report dated April 30 makes a similar calculation stated in terms of earnings.

"April 30, 1956

Dear Sirs:

In our report dated April 24, 1956, we set out our estimate of the net profits and adjusted net profits of twelve small loans companies applicable to business in loans up to \$1,500 for the years 1954 and 1955, detailing the percentage return obtained on the appropriate portion of invested capital and surplus.

We have now computed our estimate of the earnings and adjusted earnings of the same twelve companies applicable to business in loans up to \$1,500 for the years 1954 and 1955, and we attach hereto a schedule detailing the percentage return obtained on the appropriate portion of assets employed. This schedule can be compared with Schedule 2 of our report dated April 17, 1956 which shows our estimate of earnings and adjusted earnings of the twelve companies on the whole of their business (i.e. loans under \$500, loans over \$500 and conditional sales agreements) for the years 1954 and 1955.

To arrive at the estimates of earnings and adjusted earnings it was necessary to add back to the net profit before taxes, obtained for purpose of our report of April 24, 1956, the percentage proportion of interest on borrowed money that business on loans up to \$1,500 bore to the whole of the business. An estimate of income taxes, calculated at the appropriate income tax rate was then deducted, and the resulting figure of earnings was applied to the same percentage proportion of assets employed (i.e. 107% of balances outstanding on loans and other contracts) as was used for allocating interest.

Yours truly,

(Signed) DELOITTE, PLENDER, HASKINS & SELLS"

CANADIAN CONSUMER LOAN ASSOCIATION

EARNINGS OF TWELVE SMALL LOANS COMPANIES ESTIMATED APPLICABLE TO LOANS UP TO \$1,500 FOR 1954 AND 1955, AND ESTIMATED ADJUSTMENT TO RATES OF CHARGE PROPOSED IN BILL 51

	Earnings as a Percentage of Assets Employed			
	1954		1955	
	Actual	Estimated	Actual	Estimated
	%	%	%	%
Bellvue Finance Corporation Limited.....	4.4	2.9	3.3	1.3
Community Finance Corporation Limited.....	3.7	2.5	3.2	2.1
Dollar Finance Corporation Limited.....	9.0	5.1	8.2	4.4
General Finance Corporation Limited—Toronto.....	6.5	1.7	8.1	Nil
Independent Finance Corporation Limited.....	7.5	4.5	5.2	3.3
Lucerne Finance Corporation Limited.....	6.9	5.5	4.1	3.0
Mercury Finance Limited.....	6.3	4.1	7.0	3.8
National Plan Corporation Limited.....	5.6	5.0	5.5	4.8
Niagara Finance Company Limited.....	4.6	3.0	4.5	2.8
Power City Finance Company Limited.....	—	—	8.8	3.8
Trans Canada Credit Corporation Limited.....	4.9	3.7	5.4	3.0
Union Finance Company Limited.....	3.9	3.1	4.0	3.1

As I mentioned, these reports of April 24 and April 30 are related only to the portion of the business to be subject to the provisions of Bill 51, for the 12 Canadian companies. They may be compared with the figures set out in the report of April 17 which covers the operations of the whole of their business, that is, the portion which will be subject to the bill and the portion which will be beyond the scope of the bill; no matter from what source.

Similarly, in these reports the earnings may be compared with the results stated in the form of net profits.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Yes, Mr. Chairman, I would like to ask Mr. King some questions. On your schedule 2, taking the first company, the Bellvue Finance Corporation Limited—I refer to your April 17 report and your schedule No. 2. This 4.7 per cent for 1954: on what total of assets is this 4.7 per cent? What is the figure, do you know?—A. The figures in the report dated April 17 cover the whole of the operations of the company, whether or not it relates to loans up to \$1,500. So the 4.7 per cent is calculated with reference to 107 per cent of the total loan balances and other contracts, if any, outstanding.

Q. And what was that figure, do you know? Do you have it there? Would it be the \$980,537 in the report to the Department of Insurance?—A. I do not have my working papers here, but I assume that would be the case.

Q. Page 46.—A. Mr. Cameron, as I say, I do not have my detailed working papers here, so literally I would have to have those to be exact. But, on the basis which we used,—and I am sure this would be it,—we would start with the total balances of small loans \$277,843, as at December 31, 1954; we would

add to that the balance of large loans, \$425,544, and we would have the balances of conditional sales agreements and other contracts. Then we would also take the corresponding figures for December 31, 1953. By adding them and dividing by two we would get the average balances of outstandings for the period, and 107 per cent of that would be the base against which the earnings would be computed to arrive at the 4·7 per cent actual earnings.

Q. In the insurance report of December, 1954, on page 46, it gives the figures for the borrowed money employed of \$818,393, for Bellvue and it gives also the paid up capital of \$56,100, and the earned surpluses in the two types of businesses of \$22,249, plus \$21,707, making \$43,456. Now, I have not added that, but I presume that comes to that figure of \$980,537, and that would be the total assets employed, would it not? That is the borrowed money plus the paid-up capital, plus the accumulated surpluses?—A. Mr. Cameron, as I outlined in the report, the basis against which we have referred earnings, as developed in our report dated March 12 which was presented last night, has been 107 per cent of the average loan balances outstanding. For these earnings figures, that is the basis that we have used. It was 107 per cent of the money out in the hands of the borrowers, whether they be in this particular case we are talking about or all companies, or whether they be in the small loans, large loans, or conditional sales contracts.

Q. You have no figures at all from which you can tell us what the percentage is, as you say here, of assets employed? I mean, what is your definition of "assets employed"? Is it not what I have outlined?—A. Our report dated March 12th I think outlines the philosophy of assets employed and earnings, Mr. Cameron, and I would hesitate to try to repeat that report at this stage.

Q. The reason I am asking this, Mr. King, is that I frankly do not understand how you can get your later estimates in schedules 3 and 4 from anything that could be called a realistic estimate of the position because, with the assets employed, your 4·7 per cent of assets employed, and as far as I can understand the meaning of the term "assets employed" would be \$46,085, and if that were reduced to 3·6 of assets employed, which you suggest it would be if the bill passed, that would be reduced to \$35,299, and on the equity capital—that is the paid-up capital plus the surplus of \$94,508, as set out in Mr. MacGregor's table 4, those figures would be 48 per cent and 37 per cent of the equity capital respectively.—A. Mr. Cameron, perhaps I might try, in a few sentences, to recapitulate our approach to earnings. As I mentioned last night, in attempting to devise and develop a yardstick which might be used to compare the results of operations of these various licensees, after reviewing the information available, we decided that there was one common denominator which would be important in this particular business. That common denominator was loans outstanding. Also, that common denominator of loans outstanding is the asset basically which produces the revenue for these companies.

Q. Just a minute, when you say "is the asset basically" you mean to say it is identical with the assets?

The CHAIRMAN: He did not say that, Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. What do you mean it is the same basically?—A. For all practical purposes the main revenue producing asset of these companies is the loans outstanding, and for all practical purposes the revenue of these companies is derived from charges on loans outstanding. Now, as I also explained, because of various reasons—one of which may be a parent-child relationship, and there are many others—the investment in these companies comes from different sources and may be reflected in the financial statements and in the reported figures under different categories for the independent companies. Most of the

Canadian independents, to which we have been referring, are independent. That is, they are the sole company in the organization. For these companies the investment is represented by capital plus accumulated earnings. For some companies, which are only one of the companies in the organization, the investment is represented by capital, accumulated earnings, and borrowed money—borrowed from the parent. Therefore we were of the opinion that the only reasonable and workable common denominator between the companies was loans outstanding. Since loans made must have only been made if there were funds to give to the borrowers, we felt that loans outstanding were really the real assets employed. On looking over the results of the companies reporting to the department for the years 1949 to 1954, and taking the independent companies, we found that their gross assets averaged for six years—107 per cent, approximately, of loans outstanding. Therefore, on a practical basis we came to the conclusion that 107 per cent of the loan balances outstanding represented, at any one time, a fair yardstick of the assets employed for producing the revenue of the various companies. That is why we have used that as a basis of assets employed. That is why earnings have been related to that base. When you come to net profits, naturally they have been related to invested capital and surplus.

By Mr. Argue:

Q. Mr. Chairman, I wonder if Mr. King would say whether or not, if this bill goes through, on the basis of his study, whether any of the 12 companies, to which he has referred, will be forced out of this field?—A. Mr. Argue, that is a point on which I disclaim competence. I have tried to make my estimate of what the impact of the bill would be. I would prefer to leave it to others who are expert in that particular field to assess what the ultimate results would be.

Q. Could you tell the committee what proportion of the total business in this field is done by the 12 companies you have listed here?—A. Mr. Argue, I do not have that percentage computed at the moment, but it could be done.

Mr. BENEDICKSON: Could it be done very quickly? I do not mean by you, Mr. King, but somebody from your staff, while you carry on? I think you could carry on and either Mr. MacGregor and his staff, or Mr. King and his staff, could get that before we adjourn.

The WITNESS: Mr. Hawthorne will make that computation based on the balance of outstanding loans and conditional sales contracts, which again, I think probably is the most reasonable one, being the common denominator.

By Mr. Argue:

Q. In taking these 12 companies, you did not make any calculation as to whether or not, if this bill went through, these particular companies would show a lower rate of return than the companies that you excluded from the computation?—A. Mr. Argue, as I mentioned at the outset, we decided on reviewing the problem, that it presented a very large task from the standpoint of computations. As a result we did decide that, in order to assess the possible impact on a typical Canadian company, to take a reasonable sample, and arbitrarily selected 20 per cent as being the portion of the companies for which we would perform this computation, those are the only companies for which we have performed this similar computation.

Q. In taking the 20 per cent—your random sample—did you put all the names in a hat and pull them out? How did you chose the 20 per cent? A random sample, I take it, is something very definite—you produce it by a random method such as I have suggested, or, perhaps, on an alphabetical basis; you do not look at the general field first to see what the impact of this legislation would be and then take the 12 companies on which the impact might

be most severe.—A. Mr. Argue, we did not literally or figuratively put the names of the companies into a hat because we knew that some of the companies reporting to the Superintendent of Insurance were part of an organization that did business in the field of loans over \$500 but which did not report the figures, and thus the figures were not available to us. Therefore, to insure that the estimates would relate with some reasonableness to the proposed area of the bill we did just pick the companies by name purely on the basis of the proportion of their business which would be subjected to the scope of regulation as set out in the proposed bill. While that is not, strictly speaking, a random sample that was the only criterion used in picking the 12 companies.

Q. Then these 12 companies are the 12 companies whose business Bill 51 will most affect—in other words the impact of the bill on the percentage or area of business done would be most severe in the case of these 12 companies?—A. I do not think that is a fair statement. I know one or two cases where there are other companies with a comparable proportion of their business within the area to be subjected to regulation, and, while we did not compute that percentage in the case of all the companies after we had arrived at the 12, we do know there are a number. It might well be a large majority of the remaining companies—I do not know at the moment. I have assumed, and I believe reasonably so, that these 12 companies represent relatively small and relatively large Canadian companies and constitute a reasonable sample of the 58 Canadian independent companies.

The CHAIRMAN: Are there any further questions?

By Mr. Benidickson:

Q. In connection with schedules 3 and 4, I wonder if it would be possible fairly readily to inform the committee somewhat further by, for instance, supplying another two or three columns which could be placed alongside these figures stating the number of branches involved in each of the 12 companies? Would it be possible, for instance, to indicate the total of directors' salaries in connection with each of these companies together with the net profit figures that are shown?—A. Mr. Benidickson, in asking these 12 companies for the additional information that was required in cases when we did not already have it, we asked only for the information as to the detailed make-up of their loan balances which they had already supplied us—for we already had copies of the 1954 return from the office of the Superintendent of Insurance. They supplied us with copies of the figures which they had submitted for the 1955 return to the Superintendent of Insurance, but we did not ask, and we do not know, the details of any of the detailed operations of these particular companies. We felt it was sufficient if we got that key as to the make-up of the loan balances from which we could estimate the effect of the bill.

Q. Has the witness replied yet to the question asked by Mr. Cameron yesterday with respect to one company about which he was inquiring?

Mr. CAMERON (*Nanaimo*): That was with regard to the Bellvue company.

Mr. CAWKER: There are a couple of points, Mr. Cameron, on which I am still trying to get information from my accountants, but I think this discussion at the moment concerns directors' salaries, dividends and directors' fees. The other main shareholder in Bellvue Finance, who is active in the business in a

supervisory capacity and in the field, received a salary of \$3,925 in 1952. In 1953 it was \$8,263, and in 1954, \$10,356. My own salary in 1953 was \$11,938 and in 1954 it was \$14,400. My dividends in 1953 were \$1,218, and in 1954, \$1,518.

The CHAIRMAN: And director's fees?

Mr. CAWKER: There were no director's fees in 1953 and 1954.

By Mr. Cameron (Nanaimo):

Q. Can I ask you another question, Mr. King? I wonder if you would turn to page 45 of the department's report. Have you the report before you? Would you look at the Bellvue Finance Company's figures there—the third one? You will notice that there it says: balances of small loans, balances of large loans, balances of conditional sales agreements, etc., bonds, debentures, cash, and other assets, totalling \$980,537. That would be what you have termed the balance of loans outstanding, would it? That would conform to your definition of assets employed?—A. No, Mr. Cameron, my "loans outstanding"—to use it in the broad sense—would include only the amounts in the first three columns—balances of small loans, balances of large loans and balances of conditional sales agreements and other contracts; it is the money out in the hands of the borrowers. As the basis for assets employed, again we have fixed it, on the basis of the average experience of the Canadian independents in the years from 1949 to 1954 inclusive as 107 per cent of those figures.

Q. One hundred and seven per cent of those three items added together?—A. I think, actually, referring to schedule B in the report dated March 12, 1956 the actual relationship for Bellvue Finance of total assets to loans outstanding was 108 per cent but, as I say, we had arrived, for the purpose of the yardstick, at the figure of 107 per cent to loans outstanding, and that is the basis we used all the way through.

The CHAIRMAN: Are there any other questions, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Mr. King, I am still at a loss to understand your figures. I notice you have here, also, in schedule 3 for April 17, the figure of \$23,773 as a net profit. I do not know whether it is a coincidence or not, but I see that Mr. MacGregor in his table 4 gives the figure of \$23,774, which is \$1 more than you have as a net profit, but only the net profit on the small loans business, whereas the assets which you are including cover, it seems to me, some of this, other than the assets on which this sum of \$23,774 was earned.—A. Mr. Cameron, as I understand table 4 it refers to licensees under the Small Loans Act, and this is total profits, paid capital, surplus paid in, general reserves and balance of profit and loss account experienced from 1952 to 1955. That interpretation, I believe, ties in with the presentation for the years 1954 and earlier in the published report issued by the office of the Superintendent of Insurance, so that the figure of \$23,773 or \$23,774 is the net profit of the company, Bellvue Finance Corporation Limited, for the year 1954, according to these reports, on all its business.

My reports dated April 24 and April 30 segregated the portion of the business relating to loans of an original amount of \$1,500 and less, and there you will see—actually you cannot see the exact figure but I believe it is approximately \$15,000 with reference to loans on an original amount not exceeding \$1,500.

Q. Then I come to this, Mr. King—I do not want to trust Mr. Argue's arithmetic or my own, but I cannot myself find out how you arrive at this figure of 4.7 per cent of the assets employed. Are we to relate that to the

figures of earnings in the subsequent tables you have given us? What would be the figure representing that 4.7 per cent that you have in your schedule 2? —A. I will try and explain it in general terms because I do not have with me at the moment the detailed working papers. The starting point is the report I presented last night dated March 12, 1956 in which I set out the reasoning behind the method of operation of this yardstick used for the measurement of earnings and the basic philosophy behind it. So, calculating those earnings we have a comparable basis on which to compare the result of one company with another and, incidentally to the exclusion of factors outside the small loans business. Now, to apply it specifically to this company—and it applies equally to the others—the basis of computation is as follows: as I mentioned at the outset, the starting point in these figures is 1954, which figures appeared in the reports issued by the office of the Superintendent of Insurance. To illustrate, the 1954 report sets out for Bellvue Finance, on pages 48 and 49, for the year ended December 31, 1954, the gross income earned on small loans, large loans, conditional sales agreements, the recovery of amounts written off, other income, and total income. Correspondingly, pages 50 and 51 set out interest on borrowed money, written off ledger values, taxes other than income taxes, advertising, salaries and directors' fees, other expenses, and income taxes. On pages 52 and 53 of that report is set out the increase or decrease in the reserves for bad debts and contingencies.

Therefore, our starting point was the income of the company and the expenses, whatever they may have been as reported in this book. Then, to arrive at earnings, we take the gross income earned on loans and other income, deduct from that the expenses of taxes other than income tax, advertising, salaries, directors' fees and other expenses.

We deducted in addition the net charge or expenses for the year in respect of bad and doubtful loan accounts. It can be computed from here, but it is an accounting computation and I am afraid that it might involve extra technicalities. We then arrive at the figure which might be called gross earnings, that is income less expenses, except interest on borrowed money, and income taxes. We then deduct, for the purposes of earnings, not the income taxes which you would deduct in arriving at net profit but the actual taxes as booked plus the amount of the tax reduction applicable to the interest that we have taken out of the expenses. That is for earnings.

Then, to arrive at the balances of loans outstanding for this company, and for the purposes of these particular reports, we took the total balances outstanding as at the first of each of the twelve months included in the calendar year 1954 of small loans, large loans, conditional sales agreements and other contracts. We added those balances and divided by 12 to get the average in that period. We then applied to that the 107 per cent, again the figure referred to in our report of March 12, and thus we arrived at assets employed.

Then taking earnings previously computed as a percentage of assets employed, you arrive at 4.7 per cent for 1954. To arrive at 3.6, which is the estimated earnings under the bill rates, you would adjust the gross income and taxes accordingly.

The concept of the yardstick of earnings is, I admit, difficult. But I do believe it is spelled out in our report dated March 12. The figures, I believe, are in agreement with those reported by, or to, the Superintendent of Insurance for 1954-55.

Q. Well, Mr. King, I am probably very stupid but I do not quite get you yet. According to your own statements now and earlier these figures which appear in the department's report—this \$907,561, or rather 107 per cent of that—would be the assets employed as referred to in your schedule 2.

The CHAIRMAN: Mr. Cameron, I think that if he did say that he corrected it, because he said he took the monthly balances, added them up and divided by twelve.

Mr. CAMERON (*Nanaimo*): But I imagine there would not be any appreciable difference. The figures I have worked out do not include that 107 per cent. 4·7 per cent of the \$907,561 is, if my arithmetic is accurate, \$46,929. Now, the average paid up capital surplus, paid in general reserves and balance of profit and loss account for the Bellvue Finance Company in 1954 was \$94,508. Of that \$94,508, \$43,629 is, if my calculations are correct, about 46 per cent.

The CHAIRMAN: Mr. Cawker thinks that he might be of some help on this.

Mr. CAMERON (*Nanaimo*): That is all right.

Mr. CAWKER: Mr. Cameron, do I understand that your question is, what is the difference between 100 per cent of loans outstanding; in other words, the loan accounts, small, large and conditional sales contracts, and the 107 per cent which is the formula which Mr. King has taken. Are we trying to find out what is the 7 per cent?

By Mr. Cameron (Nanaimo):

Q. It is not that at all. It is the figures of this 4·7—these earnings—which are on this basis of calculating the assets employed which give me this figure of \$43,629. I cannot relate that to the percentage or the total of the capital and surplus, the net profit, that is set out in schedule 4 unless these estimated earnings of 4·7, for which we have no specific figure, include a great many costs before profit. What costs are included there? What have you besides net profit in that 4·7?—A. Mr. Cameron, I believe I know the exact reason for the difference between the figures. Net profit of a corporation, or individual, engaged in business—certainly for tax purposes—is after including interest on borrowed money. Again, as I have set out before, earnings, because they are related to the money out in the hands of the borrowers without reference to where it came from, are related to the loans producing the income, and we have excluded from the figure for earnings interest on borrowed money. We have also adjusted the figure for taxes in respect of the income taxes applicable to that interest on borrowed money. Thus, in essence, in all of these companies the earnings figure which we use is always a higher figure than net profits by the amount of the net after tax figure for interest on borrowed money. This is because of the yardstick formula, not because of any income or expenses not included in the report. So that the earnings figure in terms of dollars is always higher than the net profit figure in terms of dollars. That is why here we have stated earnings as a percentage of the assets employed.

Now, as for the 107 per cent figure. Over the six years, it covers all loan balances outstanding, plus cash in the offices to pay borrowers the amounts they borrow, cash in the banks, office furniture, and so forth, and the necessary working assets of the company.

Q. Could you give me any idea what ratio there is between what you classify as earnings in your schedule 2 and what you classify as net profit in your schedule 3? Is it twice or three times the net profit, or one and one-half, or what? Have you any idea for this particular company?—A. It is, as I have just explained it, the amount you arrive at by taking the interest for the borrowed money for any particular company, and then the tax impact on that interest on borrowed money, and the difference is that differential. I do not think that the figures themselves are significant. It is the percentage.

Mr. WEAVER: Mr. Chairman, you mentioned yesterday that the time allotted for the Canadian Consumer Loan Association would be used up by tomorrow morning. Would that mean that all other members of the association who wish to be witnesses will have to be heard by that time?

The CHAIRMAN: I think that I said, "by tomorrow afternoon". If necessary, we will have to hold a morning meeting tomorrow as well as meetings in the afternoon and evening, because we are certainly going to try to clean this up by tomorrow.

Mr. WEAVER: Who else will have to be heard?

The CHAIRMAN: I have the names of the witnesses here. Messrs. Herington, Elliott and Picard.

Mr. WEAVER: What companies do they represent?

The CHAIRMAN: Mr. Herington is the senior Toronto partner of Price Waterhouse and Company, and you will notice they have a brief, part of the Association brief. Mr. Courtland Elliott is an investment counsellor. Mr. Picard has asked the committee for the privilege of presenting a brief which would take into account the special problems which they have in the province of Quebec.

Mr. BENIDICKSON: What about some of the other companies who have a special presentation?

The CHAIRMAN: When we are through with the Canadian Consumer Loan Association brief, we will have to decide what time we will allocate to the other people who have asked to be present or whom we have asked to be present.

Mr. BENIDICKSON: There is the Credit Union, I suppose.

The CHAIRMAN: The committee have asked them to appear; they did not ask to appear.

Mr. MICHENER: Mr. Chairman, has any witness given the figure of the comparison of the amount of personal loans outstanding as made by banks, credit unions, and small loans companies? Could anyone give us that as from the end of last year if it is available?

Mr. CAWKER: May I answer that question, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. CAWKER: At the end of 1955, Mr. Michener, the total of cash personal loans was \$830 million. That incidentally was out of the total consumer credit figure of \$2,193,000,000.

Mr. MICHENER: You say \$2,193,000,000?

Mr. CAWKER: Yes, \$2,193,000,000; and of the \$830 million figure for cash personal loans, the small loan companies—I shall mention the banks first; they had \$440·6 million; they were the largest suppliers. The small loan companies had \$289·1 million. Credit unions had \$100·3 million, and incidentally the figures for the small loans companies, the \$289·1 million, included both small and large loans of the Household Finance Corporation Limited.

Mr. MICHENER: What is the definition? How are small loans defined, or what is the source of your material?

Mr. CAWKER: These were personal loans, as defined by the Bank of Canada.

Mr. MICHENER: It is their report?

Mr. CAWKER: Yes, and I should say this: we have no figures available to tell us about the credit union figures of \$100·5 million as to which would be personal loans, let us say, because there is no breakdown.

Mr. FLEMING: I have one question about the figure for the banks. According to the definition of small loans, the Canadian Bank of Canada is the only one of the chartered banks in the small loan field, and with the figure of \$440·6 million for the banks, that amount must include more than small loan lending by the Canadian Bank of Commerce?

Mr. CAWKER: I would think it would; that would of course include all the banks. While all the banks, let us say, do not have an active personal loan department, still we all know that they do make some personal loans, and I think they would be a percentage in this figure. I think it is safe to assume

that. I do not know if I have made myself clear in this breakdown of the \$830 million, but we were able to obtain the figure from the Bank of Canada figures for the small loan business, and the bank had deducted it from the total as defined by the Bank of Canada to arrive at \$100.3 million for the credit union. We were told by the Bank of Canada that that was a fair assumption to take to determine the balance.

Mr. MICHENER: Does the consumer credit figure which you gave us include personal loans, or is that in addition to personal loans?

Mr. CAWKER: No, that is all-inclusive, the \$2,193,000,000 includes personal loans.

The WITNESS: Mr. Cameron the profit as stated in schedule 3 is \$23,773, and included in expenses in arriving at that profit is interest on borrowed money, totalling \$42,855, income tax at 49 per cent, the applicable rate, the 1954 rate on that specific amount of \$42,885 at 49 per cent is \$21,000; so to convert the profits to earnings we add the difference between the interest on borrowed money and the income tax; so we add \$21,835, so that the earnings then became \$45,628.

Mr. CAMERON (*Nanaimo*): Thank you.

The WITNESS: If you take the balance outstanding of all loans as at December 31, 1953, they total approximately \$916,000; for 1954 they total about \$908,000, and the average is \$912,000. 107 per cent of this accounts to approximately \$64,000. This states the assets employed at \$976,000. \$45,628 is 4.7 per cent of \$976,000.

The CHAIRMAN: Are there any further questions? If not, we shall now move on to the next witness. I call Mr. Herington.

Mr. H. P. Herington, F.C.A., Senior Toronto Partner, Price Waterhouse and Co., Chartered Accountants, called:

Mr. CAWKER: Mr. Chairman, it seems only reasonable in a presentation of the condition of the small loans industry today that we should look for a comparison of the earnings of the small loan industry with the earnings of other industries in Canada. Therefore, the association engaged Price Waterhouse and Company to conduct a separate study the results of which are contained in the last study in our brief immediately after page 27.

The witness is Mr. H. P. Herington, who is a partner in the firm of Price Waterhouse and Company of Canada. He became a member of the Institute of Chartered Accountants of Ontario in 1926, and a fellow in 1939, and president in 1947. He was treasurer of the Canadian Institute of Chartered Accountants for four years from 1948 to 1952; and he is a member of the Board of Governors of the Canadian Tax Foundation, and was vice chairman in 1948. Now, Mr. Herington will you kindly proceed.

The WITNESS: Mr. Chairman and members of the committee. You have been burdened a great deal I understand with percentages which are very useful things provided they are properly understood.

With your permission I shall refrain from reading the first page and the greater part of the second page of my memorandum. It merely sets out the circumstances which gave rise to this study and I know that these circumstances are all familiar to you.

Before proceeding with reading the remainder of the memorandum I would like to have the privilege of giving you two explanations of my particular position here. I was asked by the Canadian Consumer Loan Association to make a study of the earnings of the four companies and of the 61 licensees and to compare them with other companies.

In the first phase of my study I naturally paralleled to a great extent the work which Mr. King has done and about which you have been hearing a great deal this afternoon.

Now, Mr. King and I purposely did not collaborate in this work. I did not see what he was writing until after it was delivered to his client and he in turn did not see what I was writing until it was delivered to my client.

I found in reading his material and comparing it with my own that it might save some confusion in the minds of this committee because you are dealing in percentages and we do not seem to jibe. There are particular reasons for that and I would like for a moment to explain a few of those reasons.

We have different objectives. First, Mr. King, was seeking to find a permanent base for fixing a rate for the industry and he arrived at a base of 107 per cent of the average loans outstanding. I take no exception to that conclusion.

But in my case I looked at that particular phase of it and I found that the actual assets employed in these companies nearly approximated a reasonable percentage. It has been said that 115 per cent is a reasonable figure. I found that it was somewhere in the neighbourhood of Mr. King's figure, around 107 per cent, and I saw no point in making any adjustment of the figures in the report which has been presented in this regard, so I accept his figures without change.

It would be interesting to you to know that the only difference between his figure and mine is the total for the loan industry, or some \$213 million. The actual figure as reported in the blue book is \$216 million. I need not tell you that that difference is something slightly over one per cent and it has no material bearing on the conclusions which you may draw in determining the rate of earnings.

We then come to the question of the earnings themselves related again to assets. Here again Mr. King and I differed in our results. I attempted to find a common denominator with which to compare this industry with other industries. I found, first speaking of the small loan companies, that there was a great number of them which were enjoying the benefit of the low rate of 20 per cent for income tax. Other companies in the medium size field were enjoying 20 per cent as they all do, but the impact was not so great on the medium sized ones, and naturally on small companies with earnings over \$20,000 where they paid 47 per cent, or, as it was in 1954, 49 per cent on the excess.

Now when you come to the industries you find a great many circumstances which are affected by what is charged for income tax. One of them is capital cost allowances. Companies are permitted to charge for tax purposes a great deal more than they usually regard as an appropriate charge for depreciation. Consequently, in some of the primary industries such as oil and metals, you have allowances for depletion which are not on the record at all. So you have a very wide variation in the impact of income tax in the case of other companies which I have selected for comparison.

In order not to introduce variables, which would be very difficult to assess, I stopped short of the earnings before deducting either interest or income tax. On the face of it they appear higher than that of Mr. King. To give you again a proper perspective—just to show you how close we were, I picked my figure

which appears on page 8, and at this point I am afraid I must make a confession. There is a typographical error on page 8 of my brief I would like at this point to correct. The figure of 14·95 should read 12·95. Now, if we take the 12·95 reported profits before interest and income tax—12·95 for subsidiaries, 7·71 for independents, we can average those on a weighted basis, and we get 12·29. In using Mr. King's adjustment for income tax of 49 per cent, I arrived at 6·26. He refers in his brief to 6·2. I think you will agree that that is a very close relationship.

On the after adjustment—at this point I might say that our approach to the probable effect of Bill 51 was different. He had access to a number of companies and their records which I did not have. In fact, my approach was to take the information that was available to the ordinary investor, the person who would try to assess the relative merits of this type of investment with other types of investment. He would know nothing about some of the things that were made available to Mr. King. So this particular problem was perhaps the most difficult of all. There was nothing that I could see in the blue book which would permit me even closely to estimate the probable effect of these proposed amendments to the permissive rates.

Finally I had to resort to, and I was furnished with, the trial balances of the two Household companies, and reference is made in my memorandum to that effect. Mr. King, in his entirely independent approach, came to within—and the adjustment was of the order of over \$6 million—came within \$13,000 of the adjustment which I arrived at through the use of this pattern. So, there again the figures, after adjustment, which averaged 9·59, and the 5·48 giving the weighted average of 9·07, and I arrived at 4·62, and Mr. King at 4·6. Again a very close relationship in the two approaches.

There are other differences. I do not know whether, Mr. Chairman, you wish me to go into any greater detail than that. Some of them have been spoken to earlier this afternoon.

Perhaps one difference ought to be mentioned because of that. Ordinarily equity capital in a company does not include provisions or reservations for doubtful accounts. I noticed that the superintendent of insurance apparently considers the provisions as being appropriations of profits rather than expenses. He in turn charges as expenses the amounts written off, which in the accounts would have been written against the provisions. In other words, he puts the profit account on a cash basis. I had no information which would permit me to take exception to the treatment accorded by the superintendent to the income accounts of these companies, so I accepted his judgment on the matter, and assumed that he had satisfied himself that these provisions were perhaps more than were required in the circumstances. For that reason I excluded them in equity, as he did too.

Here again the difference is not as great as you would think because, while the equity, which I thus arrived at, is greater than Mr. King's, the income was also greater because I do not charge income with these provisions. It is a counter-balance in effect.

I go now, Mr. Chairman, after that brief explanation, to page 2, and I would like to start to read at the second paragraph.

As Household Finance Corporation Ltd. would be brought under the act if the proposed amendments are adopted, a combining of its experience with the collective experience of the reporting companies adds considerably to the usefulness of the information contained in the reports of the Department of Insurance, and for the purpose of this report that company is considered to be a reporting company.

The reports of the superintendent of insurance do not contain information from which the probable effect of the proposed new rates on individual companies may be determined. In order to estimate the effect within reasonable

limits of error it is necessary to know the size of the balances outstanding at the end of a typical month. The Household companies have prepared an analysis of the balances outstanding at January 31, 1956, according to size (including both small and large loans) from which we have computed the interest for the month on such balances at a uniform rate of 2¹ per cent—and that, by the way, is the uniform rate used by these companies in regard to all loans—as well as interest at the maximum rates proposed in the amendment with the following results:

I will not read those figures, Mr. Chairman, but, if you will take a look at the column headed "interest for one month at present rates", that would be the amount which the Household companies would accrue for that month in respect of its outstanding loans at the beginning of that month. In the last column is the entry they would have to make in respect of the accrual if the new rates come into force. In other words, on loans up to \$300 they would accrue the same amount. In the next four or five categories, the accrual would be just exactly half of what they would now be doing. That is, they do not loan anything in excess of—I think it is down to about \$1,021, and the effect in that area is negligible. It sums up that at present they are accruing 2 per cent. Under the new rates the average accrual would be 1.6714 per cent a reduction of 16.43 per cent from the 2 per cent monthly rate permitted under the present law.

Range	Percent	Portion of out- standing balances falling within range indicated	Interest for one month	
			present rates	proposed rates
\$300 and under	67.16	\$ 97,181,855	1,943,637	1,943,637
\$300-\$400	10.99	15,905,064	318,100	159,050
\$400-\$500	8.27	11,958,372	239,166	119,583
\$500-\$600	5.33	7,717,964	154,358	77,179
\$600-\$750	5.07	7,332,313	146,646	73,323
\$750-\$1,000	3.14	4,542,620	90,852	45,426
Over \$1,000 .....	.04	61,759	1,234	308
Totals	100.0	\$144,699,947	2,893,993	2,418,506

Average rate of charge on outstanding balances 2% 1.6714%

The proposed rates represent an over-all reduction of 16.43 per cent from the 2 per cent monthly rate permitted under the present law.

We believe it is reasonable to assume that the gross income from small and large loans of the other companies will be affected to about the same extent as the Household companies for a number of reasons.

I note that the superintendent in his report of 1954 made a remark concerning the fact that the companies for the most part charge 2² per cent.

1. It appears that the reporting companies have been charging, for the most part, about 2 per cent per month regardless of the balance outstanding.

2. The number of loans, namely 475,478, included in the Household Finance balances outstanding at January 31, 1956, assures a representative assortment of balances in various ranges up to \$1,021, the limit of the loans made by the Household companies.

I suggest that this is somewhat analogous to life insurance. It has a certain actuarial quality about it.

To illustrate the probable effect of the proposed rate reductions on some of the companies, we submit the results of a recomputation of their net profits. We have selected for this purpose those of the reporting companies whose gross income in 1954 from small and large loans was in excess of \$100,000.

I have the figures, Mr. Chairman, for all the companies, if any members of the committee are interested in them.

We have not included in the selection the companies which later on in this report are referred to as subsidiaries. The computation in each case consists merely in a reduction of gross income from these loans by 16.43 per cent accompanied by an appropriate adjustment in income taxes.

At this point I would like to pause and explain that again there was a different approach on the subject of income tax between Mr. King and myself. Mr. King approached the thing from the point of view that the earnings for 1954, had the changes been in effect in that year, would have had a given effect on the earnings of that year. For that reason he used the rate of income tax, 49 per cent, in effect at that time. My approach was different. I simply said if in all other respects the business of the loan companies is maintained in 1955, these are the new rates, then we have a new rate of income tax, we would have a certain effective adjustment in that profit. Both approaches, I think are perfectly rational but, they are different, and they produce different figures. The calculations should not be regarded as a determination of the precise effect of the proposed rate reductions on these particular companies. What that effect may be will only be known after some experience under the new permissive rates. I suggest that there may be a different approach to to the business of lending money itself. We believe, however, that the probable effect will be substantially as shown and should be helpful in the present deliberations. We then tabulate these six companies but, in a sense, it is not a random selection, as that term is usually understood. It happens to be six companies, other than subsidiaries, whose gross income exceeded \$100,000. You will note the Community, and the reduction is 79 per cent; Bellvue Finance, 62 per cent; Commercial Credit, 42 per cent; Merchants Finance, 48 per cent; National Plan, 57 per cent; and Union Finance, 67 per cent.

	Present	Adjusted	Reduction as		Rate of
	net	net	percentage		profit
	profit	profit	to present	Equity	to
			net profit	capital	equity
					capital
Community Finance ..	\$90,192	\$18,286	79.73%	\$1,578,803	1.16%
Bellvue Finance	29,264	11,117	62.01	124,997	8.89
Commercial Credit ...	57,861	33,459	42.17	407,380	8.21
Merchants Finance ...	29,298	15,084	48.52	176,695	8.54
National Plan	20,531	8,789	57.19	285,640	3.08
Union Finance	52,106	16,895	67.58	297,956	5.67

It is apparent from the above results and our review generally that rate reductions of the dimensions contemplated would seriously impair the financial position of the smaller companies and would materially affect the credit rating of the larger companies.

It is believed that the interests of the borrowers would be best served by the establishment of a scale of charges which assure the continuance of the services they now enjoy. It is conceded that the extension of the small loan business to loans in the range above \$500 has developed to a point where some reduction in charges in that range could be made.

On the other hand, the proposal to reduce from 2 per cent to 1 per cent the rate applicable to outstanding balances in the range \$300 to \$500 should be given most careful consideration. The consequences of such an impairment of earnings are difficult to foresee. It is not unlikely, however, that an impairment of the order indicated would lead present or potential creditors of the small loans companies to review their respective positions. Any restriction in credit at this level must of necessity extend to the individual borrowers.

The savings which the proposed rates are designed to bring about will not seem so important to the individual borrower if he is unable to borrow the amount he requires. It is well to remember that it is not the small loans companies that determine the funds available for this purpose but rather the real lenders, those who are willing to extend credit or to invest in the securities of the companies.

The CHAIRMAN: It is 5.30, gentlemen. We will meet again at 8.15 p.m.

EVENING SESSION

8.15 p.m.

The CHAIRMAN: Gentlemen, there is a quorum. We are on page 5 of Mr. Herington's brief.

Mr. H. P. Herington, F.C.A., Senior Toronto Partner, Price Waterhouse and Company, Chartered Accountants, recalled.

The WITNESS: Mr. Chairman I think I read to the end of the second paragraph on page 5. Continuing:

In any consideration of the earnings of the reporting companies a comparison should be made with the earnings of other business enterprises. Before making such a comparison we wish to direct attention to a circumstance in the reporting companies which has an important bearing on this problem. Six of the sixty-five reporting companies are subsidiaries of United States and Canadian parent companies. Because of their relationship these six companies apparently find it convenient to obtain a large proportion of the funds they require from their respective parent companies in the form of interest-bearing indebtedness, and being subsidiaries there is probably no limit on the amount of such indebtedness in relation to the total funds employed. The remaining fifty-nine independent companies must of necessity be on an arms length basis in any borrowing arrangements which they make. The extent to which such companies may resort to borrowing money for the funds they require is therefore dictated not by their own desire but rather by the investment or lending policies of those from whom they procure such funds. The following summary, prepared from the reports of the Superintendent of Insurance for 1954, shows how these two groups of reporting companies differ in this respect:

The six subsidiaries had borrowed money amounting to \$150,849,000 and equity capital of \$38 million, a ratio of 3.9 to one. Independents, on the other hand had borrowed money of some \$19 million and equity capital of \$8½ million, or a ratio of 2.3 to one.

Companies	Borrowed money	Equity capital	Ratio borrowed money to equity capital
Subsidiaries	\$150,849,548	38,671,740	3.9 to 1
Independents	19,207,154	8,250,344	2.3 to 1
Together	<u>\$170,056,702</u>	<u>46,922,084</u>	<u>3.6 to 1</u>

Equity capital for the purpose of this report is deemed to include reserves for bad and doubtful accounts and profits have not been charged with the provisions therefor because the Department of Insurance apparently considers such reserves to be appropriations of net profits rather than expenses incurred. Had the information been available we would not have included such reserves in equity capital except to the extent they are not required, and would have charged profits with the appropriate provisions.

In the comparisons of earnings that follow the reporting companies will be distinguished as between subsidiaries and independents.

The manner of selecting other business enterprises for comparison as to earnings with the reporting companies is of the utmost importance. To be completely objective the selection had to be a random one made without any concern for the resulting conclusions. In March 1956 the Dominion Securities Corporation Limited prepared as a guide to potential investors particulars of sixty-six companies. It is believed that this list, which represents a complete cross-section of Canadian public business, satisfies the requirement of independent random selection.

In order to compare the reporting companies with other business enterprises it is necessary to find some common basis of income measurement. A number of bases have been considered and we selected two which we believe would produce results which are appropriate for comparison with other business enterprises. The first is a conversion of dollar earnings into rates of return on assets employed in the business and the second establishes rates of return on capital invested in the business by the equity shareholders.

The first method relates income before deducting interest on borrowed money and income taxes to the amount of the assets employed. This is a useful method for purpose of comparison because the results are not affected by the variety of financial arrangements found in modern business. Small loans companies particularly, and in common with banks and other like financial institutions, resort to borrowed money to a much greater extent than other types of business.

The second method recognizes the effect of the use of borrowed money and the consequent allowance for income tax purposes of interest on borrowed money by relating the net profits after all charges, including interest and income taxes, to the net assets attributed to the common shares. Under this method the preference stock, unless of the participating type, is not considered to be equity capital and preference dividends are deducted from income but without advantage taxwise. The results of our study are set out below. The profit ratios in the case of the small loans companies are based on the earnings for the year ended December 31, 1954, and those for the sixty-six selected companies are taken from annual reports for the fiscal years ending in 1954, or, where the reports were available, from the annual reports for the fiscal

years ending in 1955. In the case of small loans companies two profit ratios are shown, first the rate of earnings as reported by the companies and secondly the rate of earnings adjusted to give approximate effect to the proposed amendments for revision of the permissive rates:

Profits, before deducting interest on borrowed money and income taxes expressed as a percentage of total assets, less liabilities other than borrowed money

	No. of companies	Reported profits before interest and income taxes	After adjustment to give effect to rate reductions proposed in Bill 51
Small loans (reporting) companies:			
Subsidiaries	6	12.95%	9.59%
Canadian independents ...	59	7.71	5.48
Sixty-six selected companies:			
Banks	3		
Public utilities and transportation	8	6.61	
Steel and construction	10	21.92	
Foodstuffs	6	15.89	
Beverages	3	16.66	
Newsprint and forest products	5	27.37	
Petroleum	9	14.56	
Base metals	13	25.36	
Golds	2	17.40	
Miscellaneous	7	11.28	

The foregoing comparisons place all companies on a common footing with those companies which have no borrowed money and only one class of stock. When this basis of income measurement is used it is not customary to allow for *the income taxes which of course would be payable*. No percentage is shown for banks. Because of the nature of their business this basis of income measurement has no particular significance.

Net profits less dividends on preference stock expressed as a percentage of total assets, less liabilities including borrowed money and preference stock, i.e. net assets attributed to the common shares

	No. of companies	Reported net profits	After adjustment to give effect to rate reductions proposed in Bill 51
Small loans (reporting) companies:			
Subsidiaries	6	25.30%	16.36%
Canadian independents ...	59	9.87	5.41

At this point I would like to pause for a moment to deal with what has been a rather troublesome problem, namely this question of the leverage factor. In the case of these six subsidiaries I find on looking at the annual report of the Household Finance Corporation of Chicago which includes in consolidated form the accounts also of the Canadian companies, their borrowing ratio is 1.85 to one. In the case of Industrial Acceptance—another large consumer credit company, it is 1.80 to one, and in the case of Traders Finance it is 3.88 to one. I struck an average of those three figures of 2.33 to one, sometimes described as 70 per cent leverage, which means simply that 70 per cent of the assets employed is represented by borrowed money. Using that 70 per cent figure and applying it to these six Canadian subsidiaries on the assumption that that would be, perhaps, the most favourable borrowing position they could have at arms length in the financial market I find that instead of 25.30 per cent the over-all margin is 17.98 per cent and, after adjustment, instead of 16.36 per cent it becomes 12.06 per cent. I think those figures are more nearly comparable to those of the 66 selected companies. This, keep in mind, is the net return on shareholders equity after all charges including income tax.

	No. of companies	Reported net profits	After adjustment to give effect to rate reductions proposed in Bill 51
Sixty-six selected companies:			
Banks	3	6.30	
Public utilities and transportation	8	5.56	
Steel and construction	10	14.32	
Foodstuffs	6	10.09	
Beverages	3	10.06	
Newsprint and forest products....	5	17.17	
Petroleum	9	11.93	
Base metals	13	15.98	
Gold	2	12.19	
Miscellaneous	7	14.01	

By Mr. Fleming:

Q. I notice that public utilities and transportation are listed. What kind of utilities are those? Obviously we are dealing only with privately owned ones and the particular type of transportation might have a bearing on this.—A. The eight companies in that group were the Bell Telephone, The British Columbia Power, Calgary Power, Consumers Gas, Gatineau Power, International Utilities, Shawinigan Water and Power and the Canadian Pacific Railway.

Attention has already been drawn to a difference between two groups of reporting companies. Six companies, which have been referred to as subsidiaries, have been able to obtain a very large proportion of the funds they require in the form of borrowed money from their respective parent companies. The fifty-nine Canadian independents, on the other hand have had to make their financial arrangements on an arms length basis and in their case it has not been possible to borrow to nearly as great an extent. This is an artificial situation so far as the subsidiary companies are concerned and explains the rate of return which they earn on equity capital.

Mr. Chairman, that ends my presentation unless there are some questions.

The CHAIRMAN: Are there any questions gentlemen? If there are no questions we shall proceed to hear the next witness.

By Mr. Fulton:

Q. I would like to ask this witness a question relating to some discussion which took place last night; I wish I knew more about finance and balance sheets and rates of return and so on than I do, but it has been suggested that those companies which operate on a large proportion of borrowed money show enormous profit or return to their shareholders over and above those which operate mainly on their own invested capital. I would like an explanation of that, because it seems to me that while it is true that the years' profit expressed in terms of return on invested capital may be at a very high ratio in the case of those companies which operate largely on borrowed capital, which I will call group A, nevertheless if you look at the balance sheet of liabilities and assets, that annual profit in the form of return on investment is not available to be distributed among the shareholders because you still have all your liability with regard to the initial indebtedness. I wish you would say a word about that, because it has been bothering me.—A. If I may suggest this, Mr. Chairman, the next witness is Mr. Courtland Elliott who is more competent, I think, to deal with your question than I am. I understand he will be called next and I suggest that that question be deferred until he takes the stand.

The CHAIRMAN: I think that would be satisfactory to the committee and to Mr. Fulton—to put that question to the next witness—unless he in turn is going to send the ball on.

Mr. FULTON: It seems to me that as Mr. Herington's brief dealt with this question of the relationship of companies with the sources from which they borrow money he might have dealt with it. However, I do not want to press him.

The WITNESS: I would prefer to leave it to Mr. Elliott; I think there would be less confusion.

The CHAIRMAN: Are there any other questions?

By Mr. Fulton:

Q. Yes, one more question. On pages 8 and 9 of the brief you have made this table of comparison between small loans companies and 66 selected companies. Could you give us an indication as to what might be the average percentage of borrowed capital to total capital employed for those other sixty-six selected companies?—A. I have not specifically tabulated that.

Q. I should not have said borrowed capital; I meant borrowed money.—A. I understood the term in its broader sense. What gives you the higher return of equity where you have a lot of borrowed capital is this, that if the interest you pay on the borrowed money falls below the average earned on your total assets employed, the excess naturally accrues to the benefit of the equity holder. That gives the best explanation. Any of you who have dealt on margin on the stock exchange know how this works.

Q. You are talking right outside the depths of anyone here.—A. I would prefer to leave that question. I think it would be duplication.

Mr. ENFIELD: On page 9 the witness gave us various figures and reductions for six subsidiaries. That seems to be a pretty important set of figures and the reductions seem quite important. Are we to understand that they represent an error in your thinking in the first instance?

The CHAIRMAN: No, no. He simply explained that if their borrowing power had been at arm's length, taking a certain borrowing power, that that would be their profit rather than when they were not dealing at arm's length.

The WITNESS: That is right. There is no error involved. I simply took the total assets employed, substituted for the actual borrowings a figure of 70 per cent of that figure and then had to assume a rate of interest which I did at 4 per cent and substituted that interest for the actual interest.

The CHAIRMAN: If there are no other questions, we will proceed to the next witness.

Mr. CAWKER: Mr. Chairman and members, a question quite properly I think, was brought up this afternoon about the relationship between investors and the members of our industry. It is important to us because you have already realized, I am sure, the importance of borrowed money to the successful operation of the companies. We, I think, anticipated that some interest would be shown in this problem, and have asked Mr. Courtland Elliott, president of Elliott and Page Limited, investment counsellor of Toronto, to appear before the committee. Mr. Elliott is a graduate in economics of Queen's University and has done post-graduate work in economics in France and Washington, D.C. For twenty-six years he was with A. E. Ames and Company Limited, investment dealers, in Toronto and New York, and for the past six years has been a director of that company. He then founded his own company and for the past seven years has been an investment counsellor specializing in common stocks. I might add that he was a member of the board of referees under the Excess Profits Tax Act, and is a past president of the Toronto Board of Trade.

Mr. Elliott has no formal brief but will speak on the earnings of various types of Canadian companies and will be glad to answer any questions which result from his remarks.

Mr. Courtland Elliott, C.B.E., President, Elliott and Page Limited, Investment Counsellor, Toronto.

The WITNESS: Mr. Chairman and gentlemen, as has been noted, I have no brief prepared to present to you. It was only a week ago, as a matter of fact, that it was suggested to me that I might come down here to speak off the cuff on the subject of general investment, particularly in equity common stocks. I must confess that, due to the short time, I have not had an opportunity to read the brief or the bill and I make no pretence that I have any knowledge particularly as to the operation of small finance companies.

I have, for the past thirty years or more, been brought up in an investment atmosphere and literally for up to twelve years I have been consultant to a number of Canadian corporations in connection with their pension fund investments, a portion of which have gone into Canadian common stocks. In the course of that experience, perhaps more out of experience than out of statistics, I have developed some conclusions as to what may be successful common stock investment. The investor in common stocks looks primarily, I think, for a prospective dividend out of the earnings of the corporation.

It is a very difficult subject on which to generalize, but there are some general rules of thumb which we follow in making recommendations for investment in common stocks. They all have exceptions but it might be of interest to the members of this committee to know what they are—some of the secrets of the trade. One is that actually or prospectively we are always looking ahead and relying on the past to give us some guidance as to what is

the future. One of the rules of thumb is, we may say, interest and dividends, after taxes, earned twice over. A company that has been able to do that has been able to build up surplus, expand the operation, and in the course of time in propitious periods add to their surplus, which is investment in a plant in the productive way. We like to have financial security in the investments we make. We like to have some cushion of reserves that can be drawn upon to provide uninterrupted dividends in period of adversity.

Another rule of thumb is that we like to see in the net current assets, the liquids of the company, the receivables, inventory, cash and so forth less current liabilities, four years' dividends available, so that the company will not suddenly, in the case of a strike, fire or other hazard, cease paying its dividends to the detriment of the income of their shareholders. We like to see four years' dividends represented by earned surplus, on the liability side of the balance sheet to which the dividends that are paid can be charged.

Now, as a rule of thumb again, and without presenting to you the statistical background, it has been my experience that for the bulk of investments we like to have borrowed capital amount to no more than 25 per cent of the total capital employed, the total invested capital employed being the borrowed capital, the preferred stock, the common stock and the surplus, and sometimes the reserves. That is a rough rule of thumb.

If we can find a company that is earning its interest and dividends twice over that has a satisfactory financial position and has a relatively low leverage factor—leverage factor meaning what the percentage of debt is of the capital employed—then we look into it very carefully and if it is a type of business that is susceptible of growth, then you have the secret, at least in good times, of a satisfactory common stock investment. The leverage factor, which I think is of paramount concern in this, varies a good deal in different companies.

I believe—although I have not seen Mr. Herrington's brief nor have I had an opportunity to discuss the matter with him—that the figures which he has drawn up and which are before you rather reinforce the contention and the experience that I formed that finance companies, pipe line companies and public utilities are characterized by a very high leverage factor. In the case of public utilities, operating income after expenses translated into income available for interest and dividends is usually quite stable and susceptible of growth in certain cases. That means that, irrespective of changes in business conduct, generally speaking the earnings of utility companies are stable and they can support a larger amount of debt than can a highly volatile type of business such as the steel business, the car equipment business, building construction and so forth. Similarly the experience has been in gas transmission lines and oil pipe lines that their business is not subject to great interruption, under changing business conditions, and there too you find there is an unusually large proportion of debt in comparison with industrial companies or merchandise companies or other types of industrial operations which are more subject to the vicissitudes of change which come in the business cycle, if the business cycle still exists.

On the other hand, I do not know too much about the changes that come in finance company operations. I remember one time, perhaps eight or nine years ago, suggesting that a conservative pension fund should purchase the shares of a finance company. We finally decided against it because, characteristically, finance companies have such a large amount of debt under favourable circumstances—rising earnings in a finance company with fixed charges, with a very large amount represented by the interest on the debt. In rising, the impact of the rising earnings is to enlarge the funds available for the benefit of the common shareholders. And in good periods the dividends can increase the impact of rising earnings. In a finance company the impact is on the common stocks, on the junior equity. Conversely, lacking the stability

in public utility companies and oil pipe lines and other stable types of enterprise, in a period of adversity the declining earnings are also reflected in a sharp counteraction in the net profits available for common stock and produce a volatility in the market movement that is not helpful to conservative common stock investment. In other words, and in brief—and I am hoping to answer the question that was asked—the degree of risk absorbed by a common stockholder in a finance company is considerably higher than that to which an investor in a public utility or in an oil pipe line or in a gas transmission line is exposed. He can be the beneficiary of a rise in net profit per share in a period of rising earnings, but conversely he is exposed to what I regard as excessive risk in a period of adversity.

If you will look at the financial statistics of selected Canadian companies which have been drawn up haphazardly—let me explain, I suppose there are between 400 and 500 listed Canadian industrial stocks which are listed and actively traded on the unlisted market. I simply picked out, willy-nilly, 63 companies as being representative of good companies, bad companies, and indifferent companies, some of which are experiencing prosperity and some of which are experiencing successive depressive conditions. I picked out names that I thought would be well known to the members of the committee. That was the only criterion that was used. And of the 63 companies I find that predominantly the typical company in the list has between 30 and 35 per cent senior capital, and that is possible with a figure of 25 per cent of borrowed funds that I gave you a few minutes ago, because as part of senior capital you will see that I have included preferred stock. So that there is nothing in the list of Canadian common stocks that forces me as an investment counsellor to recommend to my clients that they should go into finance companies, that they should invest their money in finance companies and expose themselves because of the high leverage factor to what I regard as perhaps unusual benefits in a period of rising earnings and also to unusual losses in a period of falling earnings.

There is nothing in the figures for the group that forces me in, because I can meet my requirements from the best list of Canadian corporations whose debt ratios are 25 per cent or less, unless it be that I come into the exceptions that I have mentioned.

If then that is a fact, and my experience has all been to substantiate the fact that the risk does exist, then if I do in fact go into finance companies to invest, I expect compensation for the additional leverage risks that there are in finance company operations and to which Mr. Herington has been exposed and which he has expounded.

How much more do I want to get actually or appreciably from finance company stocks? I look at the earning power of these well-known listed Canadian stocks with a ready marketability, to be traded in reasonable quantities, some favoured by investors and some not so favoured, and I find that generally speaking the net income after all charges including taxes and before interest and all other charges such as operating expenses, administration expenses, depreciation, depletion and so forth, and the current rate of corporate income, but before interest, I find that in the frequency distribution of these net incomes which are subtracted from the larger sheet which provides all the figures, I find that this concentration of earning power is between 5 and 10 per cent; that 27 of the 63 companies show an earning power on their total capital employed included borrowed money and preferred stock of between 5 and 10 per cent; but 19 of the companies show an earning power between 10 and 15 per cent. So for all practical purposes if this is a representative sample, and I think it is, the typical Canadian company is earning today somewhere between 5 and 15 per cent on its total capital employed after all charges including taxes, but before interest on borrowed money.

By Mr. Pallett:

Q. With respect to the last column on the large page you have a heading "Common Stock Payout".—A. Yes, that is the percentage of net profits that are paid out by the company. But I will be coming to that in just a minute.

Well then, out of experience and I think out of statistics in which I have diminishing confidence as the years go on—

By Mr. Fulton:

Q. There seems to be some confusion in the paging of the exhibits we have been given.—A. Perhaps I should read you the heading. I am looking now at what is my second page "Net Income (After all charges) earned on Total invested capital Employed".

Q. That is my third page.—A. My second wind is always my freshest; it is a common complaint. Now we have summarized two points: one, that if the leverage factor is higher than 25 per cent, there is a qui vie to watch your step. That is a secret of the trade and I pass it along.

And in finance companies it is higher than 25 per cent so we must have some special risks. We find in the companies which range around 30 per cent that the earning power on the total invested capital employed is somewhere around 5 to 15 per cent. Now, depending upon the business itself and depending upon the amount of capital, the percentage of capital represented by borrowed funds, the leverage factor will raise or lower the residual amount available by way of net profits for common stock dividends. If you will turn to the last page, "net profits (after all charges) earned on total junior equity capital employed—which consists of common stock, surplus and free reserves", you will see what representative Canadian companies have been earning.

The first five, six, or seven companies are over depressed or are subject to public regulation.

By the Chairman:

Q. This is for what? For 1955?—A. This is all for 1955. The year-ends are stated in the large sheet which you have. I think all of them are for 1955 with the exception of Algoma Steel and Atlas Steel.

The earning power on the equity rises to 31 per cent in the case of Hudson's Bay, but typically 20 of the companies earned between 5 per cent on their total equity capital which consists of common capital stock plus free reserves and surplus. Typically they are earning 5 to 10 per cent; but almost as many as between 10 and 15 per cent; actually out of 63 companies 20 earned between 5 and 10 per cent, 18 earned between 10 and 15 per cent; and 13 earned between 15 and 20 per cent on their equity capital; so that 41 out of the 63 companies earned between 5 and 20 per cent.

Now the point is this: there is a wide selection of companies in this country in which an investor can place his funds, knowing that a satisfactory earning power can be derived both on the total capital employed and on that portion of the total capital employed which is represented by the junior equity capital.

And the further point arises therefore that in a dispassionate and cold-blooded analysis of companies and of financial segments, there does not seem to me to be any reason to believe that common stock investment must be made in finance companies stock unless the attraction of the returns are very large, at least as large, and presumably larger because of the risk factor involved, than is available in the open market quotations on the Toronto and Montreal stock exchanges.

I think, Mr. Chairman, that my off-the-cuff statement probably includes all that I have to say. I have merely tried to express to you and through you

to the members of the committee some of the considerations that are involved in the recommendations and in the selection of the common stocks. Now, if there are any questions that I can be helpful with I would be most happy to try to answer them.

The CHAIRMAN: Before we go on to the questions I have an appointment. So I wonder if Mr. Deslieries would kindly take the chair for a few minutes.

[At this point Mr. Deslieries took the chair as vice chairman.]

The ACTING CHAIRMAN (Mr. J. L. Deslieries): Gentlemen, in taking the chair for the first time I would like to express to the members my appreciation of their confidence in electing me their deputy chairman. I fully realize that this is a very important committee composed mostly, or in large part, of lawyers. Therefore I know that their time is valuable and they want to report progress. It is useless for me to ask their cooperation, but I will ask their indulgence. I sincerely want you to know at this time that I will discharge my duties to the best of my ability.

Now, gentlemen, questions have been called. Are there any questions?

By Mr. Pallett:

Q. One question I would like to ask, if I may. When you refer to capital employed, you refer to the actual money introduced in the company, and it has no bearing on the quotation of the stock on the stock market?—A. That is right.

Q. It is the actual money working within the company itself?—A. That is right. There could be great variation between the market price of the common stock and the book equity of capital.

Q. Now, under your heading of finance, was there any reason—I suppose there is an explanation, and I would be interested in hearing it—why the banks were not included under that heading?—A. The explanation of that is very simple, I think. The reported net profit of banks are under deduction of special reservations, which distorts the financial results. In other words we do not know the whole earning factor of the banks, as we think we know the whole earning factor of a corporation. If a corporation starts its accounts with net sales you can trace it right through. There could be special deductions for reserves and so forth, but in the banks inner reserves are deducted under the supervision of the Minister of Finance, I believe, and a distortion results there. So that ordinarily banks are not included in statistical tabulations of this kind. They report net profits without reporting the inner reserves that have been deducted.

Perhaps Mr. Herington could speak to that better than I can.

Mr. MONTEITH: Perhaps, Mr. Chairman, the witness could tell us why these inner reserves are created, which he said result in distortions?

By Mr. Cameron (Nanaimo):

Q. Because they are not disclosed?—A. The inner reserves, I believe, are to provide special funds for which unexpected losses can be charged, without having an effect on surplus or capital employed.

By Mr. Fulton:

Q. Can you tell us, Mr. Elliott, what is the meaning of the last column on the large sheet, "total common stock payout"?—A. Yes. I neglected to mention that, and I am very glad indeed that you brought it up. We have seen what net profits after taxes, interest and all charges, have been made in these companies, both in dollar amounts, on the big sheet, and in percentage of junior equity, in these tables. I merely put in the common share pay-out

there to indicate to the committee, which would know it anyway, that the company does not ordinarily pay out all that it makes. There is a great variation in the dividend paying policy practices in corporations. Some corporations, which have completed their expansion and have no particular need for the funds are very generous in their pay-outs and will pay out more than 50 per cent of their profits by way of dividends. Other corporations, which have expansion plans in sight, or have additional needs for working capital, for cash, and to finance receivables and inventories may be very much more conservative in their pay-outs. In other words, there is quite a variation in the policy of corporations as to how much they will pay out, and occasionally you will find dividend yields very low in the case of corporations that are paying out only a small percentage of their earnings.

I mentioned earlier that we like to see interest on dividends earned twice over. You can get a distortion of values, a distortion of your estimate of the common stock situation in a high leverage company. For instance, in a finance company, due to the high amount of interest that is being paid out you can find that the interest and dividends are only being earned 1.25 times, and yet because of the impact of rising profits or high profits in the company, you may find that the common stock dividend is being earned twice over. But, if you have diversity, then not only does the coverage for interest and dividends go down quite sharply but, the earning power for the common dividend also goes down very quickly. In other words, you might find a strange situation where a finance company earning its dividend three times over is not as highly regarded on the market as a merchandising concern that is only earning its dividend twice over. I hope I have made myself clear on that.

Q. But in order that we can understand the significance of that column and the relationship of common stock pay-out of the two finance companies, which you have listed, to the common stock pay-out of the others, would you tell me what that column represents? Is that an index figure, or a percentage figure, or what?—A. It is the percentage of total net profits that are paid out by way of common dividend.

Q. Percentage of total net profits that are paid out?—A. The total net profits. And total net profits I defined as being the residual after payments of interest and taxes.

Q. How can a company pay out 120 per cent of its total net profit?—A. By drawing on its reserves.

The CHAIRMAN (Mr. Hunter): Have they a special charter?

The WITNESS: They have what is called a renewal reserve.

By Mr. Michener:

Q. Mr. Chairman, I would like to ask Mr. Elliott's opinion on another aspect of the financing of lending companies, finance companies. He has dealt with the considerations that the prudent investor would have in mind investing in the common stocks of these companies. Now, he has also explained that the lending companies have a large ratio of borrowed capital as against the equity capital. I wonder whether he would express an opinion as to whether the same considerations, which an investor in common stocks of these companies would have in mind, would also affect the person or company, who intended to lend the fixed capital, the senior capital to these finance companies—would have in mind in making loans, and in providing funds to the lending companies through loans?—A. Let me give you an explanation in this way: anyone who possesses the investable funds has, as you can see, an almost endless variety of outlets available to him. I suppose we poor investment counsel would starve if they all decided to invest only in government bonds.

They want more than they can get from government bonds, and so they look over the senior securities, and look over junior securities, and so forth, and look at these factors that I have mentioned. There used to be an adage in the stock exchange that common stocks should sell at ten times their net profits. That was the rule of thumb. Sometimes they sell at six times, and sometimes they sell at 15, or 20 times, but, when I was a boy there was a rule of thumb, and that was held out. It is not quite indiscriminate as that, as you can see. If you are willing to buy some things at six times the earnings and on others you are willing to pay 20 times earnings, when it comes to investing in a smaller company, irrespective of the kind of company it is, whether it is a finance company, or whether it is any other company, there is an expectation of a higher rate of return than you get in a listed company. Let me express it this way: I can go in and buy any one of these good listed companies, and all I have to do is take the certificates and put them down in a box. I know I have got the right kind of industry, I have got good management, I have got the right leverage factor, I have coverage for interest and dividend, I get financial position, and I am a happy man; I do not have to worry. But, you come along to me, or somebody comes along to me with a small company, whether it is a finance company or not, and I may have these things, or I might not. If I do have I lack two things: I lack marketability. Maybe I will be locked in. If I am going to be locked in I think I am going to want higher returns than are expressed in listed securities. Secondly, because this is a small company, I may have to oversee the management much more carefully than I would in the case of United States Steel or General Motors. I have got to know what kind of men I am dealing with. I want statements from them if I have a substantial investment. As frequently happens, I find that instead of just putting the certificates in the box and forgetting about it, I have to undertake management responsibilities, and I have to sit down with the management and talk over labour problems and their tax problems and how we are going to meet the next payroll and a lot of other things. Because of that possibility I am going to want a higher rate of return. That applies to a small finance company, as I think it applies to most other small companies. Does that answer the question?

Q. Yes. But, let me follow it up with another question: supposing I have a sum of money to invest in a lending company, and I have to choose between buying equity stock, or lending the money to the company, so that in one case it becomes part of the equity capital and in the other case part of the senior or fixed capital of the lending company; are the considerations the same, from the investor's point of view, of putting money in either branch of the securities of that lending company?

The Witness:

No. In one case you are a creditor in a company; in the other case you are a risk taker. If you take a position in the senior capital for a lower stated return than in the equity you are presumably going to as for the pledge of some of the assets of the company to protect your investment. If you are putting capital into the equity of the company you have no specific pledge—you occupy a very junior position for which you will expect to be adequately compensated.

Q. In one case, then, you have security and in determining whether you are prepared to accept that security and the value of that security would not the consideration be somewhat similar to the general rule of thumb you have outlined for the usual course of investment in equity capital?—A. I do not know that I am getting the full purport of your question. If it is a good company and I am a conservative type of investor I am not particularly concerned about increasing my rate of return; I am going to get the same rate

of return if I invest in the senior capital. As I say, if I am a conservative investor and not particularly concerned about rising dividends, sure I will go into the senior capital; I will take an institutional rather than an individual approach.

Q. What I was really trying to get at is the relationship of the earnings, reserves and so on in these companies which the committee is considering—the money lending companies—to their potentiality of getting the capital which they want to lend to their borrowers.—A. I would suspect that small loan companies have very little access to the public market. A large finance company can afford to issue well secured bonds, as they have, and receive a good public response but there we are talking in millions. When you come to talk in terms of a hundred thousand or a couple of hundred thousand dollars then there is available, I would say, for all practical purposes no public issue market in this country.

By Mr. Fulton:

Q. Are you speaking of bonds and debentures?—A. Bonds, debentures and common stock.

Q. All three?—A. All three, and if I decide that this is a profitable business and I think I can work on three or four hundred thousand dollars or a million dollars I will try to get my funds partly from the bank and partly from my friends, but I think I would have great difficulty in interesting any underwriter in sponsoring an issue even on good security of less than half a million dollars in Canada. For all practical purposes that is a very difficult proposition. If an individual does buy into a small issue it is possible he may lock himself into an issue for which there is no market and, of course, there are occasions when individuals by reason of succession duties and so on may very well want to find a market. In that case the shares will be on offer, but there may or may not be a demand for them. My experience is that in the case of small issues of \$500,000 or less by the time you want to raise your money you find there is no way of doing so.

The CHAIRMAN: Are there any further questions, gentlemen? If not we will go on to hear the next witness.

Gentlemen, while the brief which Mr. Picard is going to present is being distributed I would like to remind you that we are holding three meetings tomorrow. The first will be immediately upon the calling of orders of the day after the question period; the second and third will be held at the usual times of 3.30 p.m. and 8.15 p.m. I should also point out that this room will not be available tomorrow and we shall be in room 118 which is in the basement.

Mr. FOLLWELL: When was it decided we were having three meetings tomorrow?

The CHAIRMAN: Earlier today. I decided it. If you have any objection I would be glad to hear it.

Mr. FOLLWELL: I have no objection; I just wanted to know who decided it.

The CHAIRMAN: That is why I am announcing it now—in case you might sleep in, Mr. Follwell.

This brief has, I believe, been prepared both in English and in French. I understand that Mr. Picard prefers to give his evidence in French—although he can also speak English—because he feels more at home in that language and can make his points better in French. We have brought in an interpreter for the convenience of people like myself who are so stupid that they do not understand French.

Mr. CAWKER: Mr. Chairman, the evidence of the Consumer Loan Association has been maintained, we hope, within the broad field of a review of the industry for the past 16 years since the passage of the act and the problems

whose examination was, we felt, necessary to the committee in their deliberations. However it was made quite plain to us by the group of membership operating in the province of Quebec that there were some special problems which they felt could hardly be covered in a brief submitted as the presentation of a nation-wide association. We therefore suggested that Mr. Pinard prepare the story of the problems attending the operation of the small loans business in the province of Quebec and the committee was kind enough to agree to hear him. He is the president of the Lucerne Finance Corporation, a business which originated through his father and which, I believe, has been operating in the city of Montreal since 1925. I would ask Mr. Picard if he would proceed with the reading of his brief.

The CHAIRMAN: Before we start on this I have a suggestion to make—I do not know whether it is agreeable to the committee or not, but as I understand it Mr. Picard will be speaking in the French language and those of us who have the English copy could probably follow him in the translation. When he has any comment to make I think the interpreter should step in and interpret those comments to the English speaking people on the committee, but I cannot see any purpose in having the interpreter interpret every sentence as he reads it when it is set out in English before us; that would only hold up our proceedings. So I think anything extraneous to the brief should be interpreted into English for the benefit of the English members and perhaps also, from time to time, the interpreter could tell us what paragraph we are at in case we get lost.

Mr. F. S. Picard, President, Lucerne Finance Corporation Limited, called.

The WITNESS: Mr. Chairman, I would like you and the hon. members of this committee to bear with me as I present my brief in French for I am considerably more at ease in my mother tongue. For the convenience of the English speaking members of the committee an English translation has been provided.

Messieurs, je tiens à remercier le président du comité de la Banque et du Commerce pour l'occasion qu'il me fournit de venir vous exposer le point de vue des compagnies de petits prêts faisant affaires uniquement dans une province, et en l'occurrence uniquement dans la province de Québec.

Quoique faisant partie de l'association Canadienne du Prêt au Consommateur, dont vous avez récemment eu l'avantage d'étudier le mémoire que j'endorsse pleinement, il existe des problèmes très particuliers à un commerce de petits prêts faisant affaires exclusivement ou en grande partie dans la province de Québec. Ces problèmes peuvent être divisés en cinq grandes catégories.

1) *Loi du lien sur les biens-meubles:*

Il n'existe pas dans la province de Québec, comme vous le savez peut-être, de loi qui permet à un prêteur de prendre un lien sur des biens-meubles, servant à garantir un prêt. Une loi fédérale permet aux banques de prendre comme garantie dans certains cas l'équipement ou des animaux de la ferme, mais les prêteurs licenciés n'ont aucun moyen pour ajouter une garantie autre que le billet à ordre. Les neuf autres provinces ont une loi concernant le "Chattel Mortgage" qui permet cette prise de garantie, ce qui facilite l'obtention et la négociation de prêts.

Le prêteur au Québec se trouve donc placé dans une position difficile. Il lui reste un choix peu attrayant. Ou bien il demandera des endosseurs et alors son chiffre d'affaires sera diminué sensiblement. L'expérience montre en effet que les emprunteurs tout naturellement hésitent à discuter de leurs problèmes financiers avec des amis ou encore avec des membres de leur famille. En plus, l'emprunteur qui aura réussi à obtenir un ou plusieurs endosseurs se sera créé une obligation envers celui qui l'aura endossé. A son tour, il sera peut-être forcé plus tard à rendre le même service dans des circonstances qui ne lui seront pas toujours aussi favorables. Cette situation est souvent néfaste et pour l'emprunteur et pour le prêteur.

Il peut aussi consentir des prêts sans endosseurs, mais alors il prend un risque qui ne se compare pas au risque encouru dans les autres provinces étant donné que le lien sur les meubles ne nous est pas permis au Québec. Les compagnies importantes dont les opérations, dis-je, s'étendent d'un océan à l'autre, peuvent beaucoup plus facilement se permettre de prendre le risque additionnel que comporte le prêt sans endosseurs dans la province de Québec, car le risque ne porte que sur un faible pourcentage de leur commerce global.

Une légère diminution dans l'activité économique frapperait beaucoup plus durement un prêteur dont la grande partie des exigibilités serait au Québec; par conséquent beaucoup moins garantie que les compagnies à chaîne plus importantes dont les bénéfices réalisés dans le reste du pays pourraient compenser pour une diminution des profits dans le Québec.

2) *Loi concernant le statut légal de la femme mariée:*

Le coût du fonctionnement d'un bureau de prêts est à la base du taux permis par la loi. Ce coût peut varier d'une province à l'autre selon l'application de certaines lois ou certaines conditions locales. La négociation des prêts, pour ne prendre qu'un aspect de la situation, est simplifiée dans la plupart des provinces car là, la femme peut s'engager personnellement pour venir en aide à son mari et elle est en mesure de signer les documents nécessaires à la transaction. Chez nous, dans bien des cas, la femme doit avoir l'autorisation de son mari pour transiger. Elle ne peut s'engager personnellement pour son mari. On doit quelquefois établir si les époux sont mariés en communauté de biens ou non, etc., etc., ce qui comporte des dépenses additionnelles.

Ces considérations rendent la négociation des prêts plus difficile et par conséquent plus coûteuse, car il faut souvent y mettre considérablement plus de temps que pour de semblables discussions dans d'autres provinces. Là où un prêt pourra se bâcler dans une seule visite au bureau du prêteur, cet état de choses à l'occasion nécessitera plusieurs visites pour l'emprunteur au Québec, ce qui en augmente d'autant le coût.

3) *Le grand nombre des faillites personnelles:*

Quoique la loi concernant les faillites soit une loi fédérale, les statistiques prouvent que la province de Québec hérite d'au delà de 73 p. 100 de toutes les faillites du Canada, et je répète, 73 p. 100. En 1955, il y eut 2,412 faillites au Canada (ces chiffres sont sujets à révision, mais ils ont été fournis par l'office du Surintendant des faillites à Ottawa). Plus de 73 p. 100 de ces faillites ont eu lieu dans la province de Québec. Les statistiques ne font pas la distinction entre les faillites commerciales et les faillites personnelles, et ce sont les faillites personnelles qui nous concernent particulièrement. Nous avons cependant le nombre des faillites dont le règlement est sujet à l'Administration Sommaire. Il est convenu que presque toutes les faillites personnelles sont classées sous cette rubrique. En se basant sur cet énoncé, le pourcentage des faillites personnelles au Québec par rapport au total s'élèverait à

84 p. 100, soit 1,058 sur un total de 1,252 pour tout le Canada. Toute erreur causée par cet énoncé arbitraire, si corrigée ne ferait qu'augmenter davantage le pourcentage car il existe à ma connaissance quelques faillites personnelles dont le règlement ne relève pas de l'Administration Sommaire mais par contre très peu et peut-être aucune faillite commerciale n'est réglée de cette façon. Le problème est angoissant car le nombre augmente d'année en année et il s'ajoute aux autres problèmes qui nous sont très particuliers. Les causes de cet état de choses importent peu dans les considérations qui nous occupent, mais le fait demeure que la faillite personnelle est un facteur très important dans la perception des comptes de tout prêteur faisant affaires dans la province de Québec. Depuis quatre ans le problème s'est accentué et il représente une sérieuse entrave au développement de toute compagnie de petits prêts dont les opérations sont limitées à la province de Québec.

La Chambre de Commerce de Montréal, alertée par ses membres, récemment, a fait faire une étude du problème dans le but de recommander, s'il y a lieu, quelques changements à la loi aux gouvernements fédéral et provincial. Le résultat de cette étude à ma connaissance n'a pas encore été rendu public.

Dans la plupart des cas, les montants en cause quoique très élevés au total, ne sont pas suffisamment élevés individuellement pour justifier la dépense en frais légaux nécessaires à la revendication des droits des créanciers. Conséquemment, ces sommes éventuellement deviennent des pertes totales, ajoutant au coût de notre service.

4) *Le caractère bilingue de notre province.*

A cause du caractère bilingue de notre population, nos formules de contrat, de billet, de demande d'emprunt, enfin à peu près toute notre papeterie doit être imprimée dans les deux langues. Ceci constitue une autre dépense additionnelle qui ne figure pas dans les dépenses d'autres compagnies indépendantes dans d'autres provinces. Une compagnie de publicité, par exemple, pour être efficace à Montréal ne peut réellement pas ignorer l'un ou l'autre des groupements ethniques.

Souvent une pièce publicitaire défie toute traduction ce qui double le coût de production. Le recrutement d'un personnel complètement bilingue est très difficile et prend considérablement plus de temps et vient s'ajouter à nos autres problèmes.

5) *Restriction sur les méthodes d'obtention de capital.*

La loi concernant les petits prêts ne permet pas, d'après l'article 16, l'émission de débentures et d'obligations. Quoique l'article 16 ne vise que les compagnies de petits prêts, M. McGregor vous a expliqué qu'en pratique le département des assurances empêcherait tout prêteur d'avoir recours à cette méthode de financement. J'en ai eu personnellement l'expérience.

Une compagnie désireuse de financer l'expansion de son commerce est restreinte dans ses méthodes de finance. Il ne lui reste que deux alternatives. Elle peut augmenter son capital ou trouver un prêteur qui se contentera d'un billet garanti par la compagnie sans priorité et sans garantie spécifique.

Quoique cette condition s'applique à toutes compagnies peu importe où elles font affaires, elle devient plus encombrante au Québec en vertu de l'absence de garantie qui caractérise ce commerce dans notre province. Quoique semble en penser le Surintendant des Assurances, en évaluant le risque que comporte un commerce de prêts de petites sommes d'argent, les sources de capital ou les prêteurs, (banques, groupements financiers, etc) estiment que le risque est considérable. L'apport d'argent nouveau est très difficile à obtenir et même lorsque le capital est disponible, dans certains cas on demande des garanties personnelles additionnelles.

For my own case for the money I borrow I pay more for the small loans business than I do for my acceptance business, and in addition I have to provide personal guaranty.

Les banques demeurent toutefois la principale source de crédit, et elles sont influencées par les directives de la Banque du Canada. Selon le cas, et pour des raisons d'ordre économique la disponibilité des fonds varie considérablement d'une période à l'autre. Bien osé celui qui se fie trop sur un crédit bancaire car en plus des considérations économiques visant à contrôler l'inflation, les banques comme tout le monde, ne peuvent prêter plus que ce que leur permettent leurs ressources individuelles. Depuis quelques années, les banques sont appelées à financer une partie toujours grandissante de l'activité économique, et les demandes augmentent continuellement. Le prêt hypothécaire leur étant maintenant permis, ils ont moins de ressources disponibles pour d'autres commerces en quête de soutien financier.

Il serait peut-être approprié de faire remarquer que le coût d'un prêt de banque peut varier rapidement. Récemment les charges des banques dans le cas de Lucerne Finance ont augmenté d'à peu près 10% soit de 5½ à 6% par année. Le privilège d'un coût fixe pour une période d'années, que nous garantirait une émission de débetures nous étant refusé, nous ne pouvons contrôler le coût de notre argent avec certitude d'un mois à l'autre et encore moins la disponibilité de cet argent.

Il y a d'autres facteurs qui tendent à augmenter les difficultés et, par conséquent, le coût de l'opération d'un commerce de prêts personnels dans la province de Québec... Jé vous ai cependant donné un bref aperçu des principaux problèmes auxquels nous avons à faire face et qui nous sont particuliers.

Examinons maintenant les conséquences de cet état de choses sur le fonctionnement d'un bureau de prêts et vous constaterez avec moi que le facteur "coût" peut être différent d'une province à l'autre, et même d'une zone à l'autre dans une même province.

Est-il nécessaire de comparer avec d'autres commerces pour vous convaincre de ce point? Une automobile manufacturée à Oshawa ne coûte-t-elle pas plus cher à Montréal qu'à Toronto—et à Val d'Or plus cher encore?—Le coût du pouvoir électrique varie considérablement d'une province à l'autre et dans la même province on constate des différences. Pourquoi? Parce que le facteur "coût" en définitive décide du prix de tout service ou de tout produit.

Nos frais sont plafonnés à un taux de 2% par mois sur le solde impayé à chaque mois comme partout ailleurs au Canada. Ces frais nous permettent de défrayer les dépenses nécessaires pour maintenir le service donné à l'emprunteur, assurer une investigation adéquate des demandes d'emprunt et permettre la perception des versements mensuels. Le coût de ces opérations diverses est plus élevé dans la province de Québec que dans les autres provinces et en voici les causes.

1) *Coût de l'investigation:*

Une conséquence évidente de ces remarques a été une investigation beaucoup plus serrée de chaque demande d'emprunt afin de compenser pour le manque de garantie, par une diminution du risque encouru.

Le consommateur dont les faveurs sont sollicitées par tant de magasins et de services de toute sorte généralement agit avec prudence mais ses plans bien tracés sont parfois dérangés par une interruption imprévue de son travail causée par la maladie ou pour d'autres raisons. C'est alors qu'il se présente chez le prêteur et grâce à ce dernier son fardeau est allégé, l'ordre est remis dans le budget familial et la diminution, je dis bien, systématique de ses dettes est rendue possible.

La nature humaine veut que l'emprunteur essaye de présenter le meilleur bilan possible afin d'augmenter ses chances d'obtenir le prêt. Il est donc nécessaire pour le prêteur de veiller à ce que toutes les dettes soient mises à jour, autrement un jugement sûr devient impossible. Cet état de choses nous forcera à avoir recours plus souvent qu'ailleurs aux services de Bureaux de Crédit ou d'autres agences dont les dossiers nous permettront de vérifier les avancés du demandeur. Comme partout ailleurs, nous devons faire face ici à une augmentation récente du coût. Un rapport écrit du bureau de crédit de Montréal par exemple coûte 1.75. Depuis quelques années cette dépense seule a augmenté de 50%. L'investigation plus poussée requiert l'usage de plus de téléphones, de temps et de personnel.

Comme résultat, il s'ensuit logiquement que le nombre des demandes refusées est plus élevé dans la province de Québec qu'ailleurs. Les chiffres d'une compagnie importante, faisant affaires dans tous les coins de ma province montrent que leurs refus sont 10% plus élevés dans Québec qu'en Ontario et 14% plus élevés qu'en Saskatchewan. Et ceci dans une compagnie qui peut se permettre de plus grands risques. Comme il est impossible de recouvrer les frais encourus dans l'investigation des demandes qui sont refusées, il s'ensuit que cette dépense est plus forte pour nous.

2) *Le montant prêté est plus bas:*

Il est convenu qu'une partie des dépenses s'appliquant à la négociation d'un prêt ne varie pas beaucoup peu importe le montant prêté. Il semble donc évident que plus le montant du prêt est élevé, plus la marge de profit sera haute. A cause des facteurs déjà énumérés, il a fallu dans la province de Québec, non seulement diminuer le risque individuel mais aussi nous avons été forcés de réduire la somme prêtée à chaque individu.

J'ai ici les chiffres de deux compagnies dont les opérations sont bien différentes. L'une faisant affaires en Ontario et au Québec exclusivement, me confie que 70% de l'argent prêté en dehors de la province de Québec, est prêté dans des montants dépassant \$500. Dans la province de Québec le pourcentage des prêts d'un montant original dépassant \$500 tombe à 45%. Vous pouvez constater la marge. Une des compagnies plus importantes me fournit l'information suivante. Dans la province de Québec moins de 55% du chiffre d'affaires est consenti dans des prêts dont le montant original dépasse \$500—tandis que pour le reste du pays ce pourcentage est près de 70%.

Je ne vous inonderai pas de statistiques, mais ces chiffres montrent bien qu'il est impossible d'arriver à un bénéfice égal d'un bout à l'autre du pays.

Le taux permis par la loi sur les petits prêts doit être assez élevé pour permettre à toute compagnie, peu importe sa position géographique et son importance, de faire un profit raisonnable. Il ne devrait pas être nécessaire pour une compagnie d'étendre ses activités dans tous les coins du pays afin de réaliser un bénéfice adéquat. M. McGregor a, semble-t-il, cherché à donner au commerce des prêts personnels, un taux minimum auquel les compagnies à chaîne peuvent opérer à profit et cela à un moment où l'activité économique au pays connaît un essor sans pareil et où la grande majorité des salariés, nos clients habituels, n'ont aucune difficulté à se trouver un emploi.

Doit-on conclure que là où les dépenses sont plus fortes on doit se résigner à priver certaines communautés du service offert par les compagnies de petits prêts ou encore à laisser le champ libre aux compagnies qui jouissent d'un capital illimité souvent de provenance étrangère. Sûrement, toutes les familles canadiennes, peu importe leur location géographique, ont droit au service accordé par les compagnies de petits prêts!—Ceci n'est pas un privilège accordé à quelques uns.

Bien au contraire, le taux maximum doit être réaliste. Autrement la seule conséquence sera un retour du prêteur illégal exigeant des taux usuriers.

Je voudrais, si vous me le permettez, dire quelques mots sur le taux maximum, car c'est bien d'un taux maximum dont il est question. Les remarques de M. McGregor nous portent à croire qu'il a voulu établir le taux le plus bas possible en regard des conditions économiques actuelles. Il pose par le fait même une sérieuse entrave à la compétition au sein de l'industrie, car les quelques compagnies dont le chiffre d'affaires est assez élevé pour leur permettre d'accepter un revenu brut considérablement réduit, chargeront toutes nécessairement le taux maximum. Il n'y aura donc aucune différence entre le minimum et le maximum.

Le commerce de petits prêts a besoin d'un taux maximum qui rendra possible une compétition saine, à l'avantage de l'emprunteur et qui assurera la stabilité pour un service, rendu vital pour un grand nombre de familles canadiennes.

En créant un taux maximum qui n'est autre que le taux minimum il en résultera ce qui suit:

1) Les compagnies de moindre importance, ou encore les compagnies dont le commerce est limité à une partie du pays ou les dépenses sont plus fortes devront abandonner le domaine des prêts personnels.

2) Même les compagnies plus importantes devront sans aucun doute réduire leurs opérations aux endroits devenus sans attrait pour le capital.

En ne laissant aucune marge pour une augmentation des dépenses du prêteur, il s'ensuit que d'année en année les membres de ce comité seront appelés à considérer des demandes pour une hausse dans le taux. Si les salaires, les loyers, le coût de l'obtention de l'argent, etc., augmentent encore, comme ils le font depuis plusieurs années, le problème serait à l'étude 12 mois par année. Aucune industrie ne pourrait efficacement continuer ses opérations dans pareille circonstance.

Permettez-moi de terminer en insistant sur un point qui, me semble-t-il, a été à peine abordée durant vos délibérations. Quel serait le résultat de l'application des taux tels que recommandés dans le projet de loi du point de vue de l'emprunteur. Car, dans le fond, c'est lui qui est en cause en ce moment.

A mon sens, l'emprunteur jouit aujourd'hui dans presque tout le pays de grands avantages dans ses relations avec le prêteur et ceux-ci peuvent se diviser en deux parties distinctes.

1) *Le choix entre plusieurs compagnies.*

Une saine compétition dans tout commerce assure pour le client le choix entre plusieurs sources de crédit dont les services ne sont pas nécessairement de valeur égale. Depuis 1940, date effective de la législation présentement à l'étude, un bon nombre de compagnies ont à différentes reprises sans aucune contrainte de la part du Département des Assurances, réduit les taux à un moment ou à un autre. Dans le moment même, plus de 40% des soldes prêtés dans des montants d'au delà de \$500 portent un taux d'intérêt moindre que les 2% par mois permis pour les petits prêts.

Un taux qui ne permettrait qu'à une ou deux des plus importantes compagnies de continuer à offrir ce service ne ferait qu'encourager ces quelques compagnies à diminuer leur risque encore davantage au point où l'emprunteur serait à la merci d'un monopole. Les besoins de l'individu seraient petit à petit mis de côté. Si tel est le résultat, la législation originale aura complètement manqué son but.

2) *Un traitement juste en cas de difficulté:*

L'emprunteur actuellement est assuré de toute la considération possible en cas de maladie, chômage ou interruption quelconque dans le revenu familial. Le comité reconnaît sans doute qu'un compte ne devient pas une mauvaise créance du jour au lendemain. Il y a, la plupart du temps, une détérioration progressive souvent facile à observer. Une intransigeance dans nos relations avec l'emprunteur en défaut, dès le début de la délinquance, facilite la perception, car la garantie, apparente ou réelle, est plus facilement sujette à une action légale à ce moment-là.

Un taux adéquat nous permet de prendre le temps qu'il faut pour trouver une solution au problème du client et aussi nous permet d'assumer le risque d'une détérioration accrue du compte et de l'effritement de son actif. Une réduction irréaliste du taux nous forcerait à réaliser vite notre exigibilité afin de nous protéger contre une perte accrue en mauvaises créances, ou encore pour diminuer les dépenses encourues pour ajuster les comptes. Ceci ne servirait aucunement les intérêts de l'emprunteur.

Le choix de compagnies qu'a maintenant tout emprunteur est une garantie de bon traitement, car une compagnie n'ayant que très peu de considération pour l'emprunteur verra ses clients la délaisser pour une autre plus compréhensive. Si le taux est réduit au point où à peine une ou deux compagnies plus importantes pourront maintenir le service, maintenant à la disposition du public, grâce à leur chiffre d'affaires et à l'étendue de leur opération, la garantie de considération disparaît par le fait même.

Les compagnies, en général, sont conscientes de leur responsabilité sociale mais s'il devient économiquement impossible, dis-je, de le rester, il en résultera un état plus désavantageux pour les emprunteurs malgré un coût réduit.

D'après le dernier rapport disponible du Surintendant des Assurances pour l'année 1954, on peut constater que 787 actions légales ont été instituées par toutes les compagnies de petits prêts et les prêteurs licenciés durant l'année. Si l'on considère que, pendant cette même année, ces compagnies, au total, ont consenti 831,721 prêts et que, encore d'après ce même rapport, 20,950 comptes, dont le total des soldes était \$2,941,411 sont plus de quatre mois en retard, il devient évident que l'emprunteur, en général, est loin d'être maltraité. Il ne faudrait pas que cette situation change.

Pour les raisons que j'ai énumérées plus haut, je soumets que le taux, tel qu'exprimé dans le projet de loi présentement à l'étude, est trop bas et je vous recommande respectueusement de donner à l'amendement proposé par l'Association Canadienne du Prêt au Consommateur toute l'attention qu'il mérite, non seulement en vertu des arguments contenus dans leur mémoire, qui s'appliquent au commerce des petits prêts en général, mais aussi afin d'assurer pour le public un service indispensable à un taux raisonnable, et un traitement honorable dans ses relations avec le prêteur, peu importe son lieu de résidence.

The CHAIRMAN: Gentlemen we will leave the questioning of Mr. Picard until tomorrow morning. As you know, we will be meeting as soon as orders of the day are called, in room 118. The order the committee had set was that the next group to be called would be the Canadian Bankers Association and the Bank of Commerce. The President of the Canadian Bankers Association could not be available tomorrow but he will make himself available on Friday, and the Canadian Bank of Commerce also on that day. What I am proposing is that as soon as we have finished with the Canadian Consumer Loan representation tomorrow morning we will get on to Personal Finance, Niagara Finance and the Caisse Populaire, which we should finish by tomorrow night easily. Then on Friday we will hear from the Canadian Bankers Association, the Bank of Commerce, the Credit Union National Association and the Merchants Finance Limited.

If we can finish in time on Friday we can then get on to the bill itself on Saturday. If that is agreeable to the committee I think that is as much as can be done in the circumstances.

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: If we could finish on Saturday I could report the bill on Monday morning and it can get on the order paper for passage on Tuesday.

The following is the English translation of the Proceedings conducted in French on this date.

GENTLEMEN:

I would like to thank the chairman of the Banking and Commerce Committee for giving me the opportunity of presenting to the members of this Committee, the points of view of small loans companies or money lenders operating only in the one province, and in my case, solely in the Province of Quebec.

Although I am an accredited member of the Canadian Consumer Loan Association, whose brief you have had the opportunity to study and which I fully endorse, I have to face up to many problems which relate to a small loans operation whose business is restricted mainly to the Province of Quebec. These problems can be divided into five categories:

1. *Chattel Mortgage Law*

There is no law in the Province of Quebec, as you probably know, which permits a lender to take a chattel mortgage as security for a loan. A federal law allows banks to take as security the farm equipment or animals in certain cases but licensed money lenders have no means at their disposal of taking physical guarantees in addition to the note. The other nine provinces have a "chattel mortgage" law which authorizes the taking of chattels as security and this helps in the negotiation of loans.

The lender in Quebec, is, therefore, in a difficult situation. He has an unenviable choice. His first choice is to request endorsers and then his volume of business will drop off considerably, for experience has shown that the borrowers quite naturally hesitate to discuss their financial problems with their friends or with their family. Furthermore, the borrower who has been successful in obtaining one or more endorsers has created for himself an obligation towards his benefactors and he may be called upon at a later date to render a similar service under vastly different circumstances possibly not quite so favourable. This situation often leads to trouble for both the lender and the borrower.

His second choice is to make the loans without endorsers but then he assumes a risk which cannot be compared to the risk taken under similar circumstances in the other provinces as we have no chattel mortgage law in Quebec. The large companies whose operations extend from coast to coast can far more easily take the additional risk of personal loans without endorsers in Quebec, as the risk affects only a small part of their total volume.

A slight decline in economic activity would have a much more severe effect on the lender whose receivables are for the most part in the Province of Quebec, and, therefore, less secured, than on the larger chain organizations whose reduced earnings in Quebec could be compensated for by profits in the other parts of the country.

2. *Law having regard to rights and privileges of married women*

The cost of operation of a small loan office is basically the determining factor in setting a legal permissible rate. This cost may vary from one province to the other depending on local laws or local conditions. The negotiations of the loans, to take only one aspect of the situation is made easier in most provinces where the wife can obligate herself to assist her husband and is in a position to sign the necessary documents. In Quebec, a wife needs the authorization of her husband to enter into many types of contracts. For example, a wife cannot obligate herself for her husband. It is sometimes necessary to establish whether the couple are married common as to property or separate as to property etc., and all this adds to our cost.

These considerations render the negotiation of the loans more difficult and therefore more costly for it is often necessary to spend far more time than in similar transactions in the other provinces. Where a loan in one province might have been completed in one visit to the lender's office, it could require more in Quebec and this is a definite item increasing the cost.

3. *The large number of personal bankruptcies*

Although the Bankruptcy Act is a federal law, statistics show that the Province of Quebec accounts for about 73 per cent, I repeat, 73 per cent, of all Canadian bankruptcies. (These figures are subject to correction but have been supplied by the office of the Superintendent of Bankruptcies in Ottawa). In 1955 out of a total of 2,412 bankruptcies in Canada, over 73 per cent were in Quebec. The statistics do not segregate personal bankruptcies from business or commercial bankruptcies and our main concern is with personal bankruptcies. However, it is generally agreed that most personal bankruptcies come under Summary Administration and we do have available the number which are handled by Summary Administration. Based on this fact, the Quebec total of Summary Administrations is 1,058 out of a total of 1,252 for all of Canada or about 84 per cent of all personal bankruptcies. Any inaccuracy in figures would tend to darken the picture even more as there are a number of personal bankruptcies which are not handled through Summary Administration whereas few, if any, business or commercial bankruptcies are so handled.

This is a very serious problem, for the number of these personal bankruptcies is increasing by leaps and bounds every year and it is one problem peculiar to this one area. The causes of this state of affairs are of little concern to this Committee in its present deliberations but the fact remains that the incidence of personal bankruptcies is a very definite factor in the collection of the accounts of any lender who does business in the Province of Quebec. Within the past four years this problem has increased considerably and today it represents a serious impediment to the development of any small loans company whose operation is restricted to the Province of Quebec.

La Chambre de Commerce de Montréal, recently alerted to the problem by its members, has initiated a comprehensive study in order to recommend changes in the law to the various governments according to the findings of the study Committee. The report of this study Committee has not yet been made public to my knowledge.

In the majority of these bankruptcy cases, the amounts involved, while quite high as a total, are not individually large enough to warrant the expense required in legal fees that would be necessary to insure that the creditors' rights are fully protected. Consequently, these amounts eventually become total losses thus adding to the cost of our service.

4. *The bilingual character of the Province of Quebec*

Because of the bilingual character of our population, all our contracts, notes, application forms and just about all our stationery must be printed in both languages. This constitutes an additional expense that does not enter into the calculations of other independent companies operating in other provinces. An advertising campaign, for example, to be effective in Montreal, must not ignore either one of our ethnic groups. Quite often, a publicity release defies any translation which immediately doubles the cost of production.

The recruiting of fully bilingual personnel is more difficult and time consuming, thus adding again to our problems.

5. *Restriction on raising of capital*

Section 16 of the Small Loans Act forbids the issuing of debentures and bonds for financing the operations of small loans companies. As explained by Mr. MacGregor, although the prohibition applies only to the Small Loans companies, the Department of Insurance has made sure that money lenders also conform to this regulation. I have had personal experience of this.

Any company desirous of financing the expansion of its business is restricted in the methods it can use to finance this growth. Only two alternatives are available. It can increase its paid-up capital or it can find a lender who will be satisfied with a straight note guaranteed by the company without priority or specific security.

Although this condition applies to all companies, regardless of where they do business, the prohibition is far more of a problem in Quebec because of the complete lack of security which is inherent in the small loan business in our province. Despite the apparent opinion of the Superintendent of Insurance concerning the evaluation of the risk which is associated with a business of lending small sums of money, the source of capital or the suppliers (banks, financial institutions etc.) judge the risk to be pretty high. The finding of new capital is very difficult and even when it is available, some additional form of personal security is often required.

The banks are still the main source of credit and are subject to the directives of the Bank of Canada. Depending on the circumstances and for reasons relating to the Canadian economy, the availability of funds can vary considerably from one period to another. It would not be safe to rely too much on bank credit for in addition to the economic considerations which are designed to control inflation, the banks like everybody else can not lend more than their individual resources permit. In recent years, the Canadian chartered banks have been asked to finance an ever increasing part of our economic expansion and the demand for funds has continually increased. In addition, the home mortgage field now open to the banks has further increased the demand for loans so that there appears to be less and less money available for others in search of financial support.

It might be the appropriate time to bring to the attention of this Committee that the cost of bank borrowings may also vary rapidly. Recently my bank interest rates on loans went up from 5½% to 6%, or an increase of about 10% in the cost. The advantage of a fixed price on borrowings over a period of years which a debenture issue would provide, is not available to us. Therefore, not only can we not control the availability of the money supply but its cost can be increased at any time.

There are other factors which tend to increase the problems and therefore the cost of operating a small loans business in the province of Quebec, however, I have given you a brief outline of the main factors which we have to face and which are strictly local in their nature.

Let us now examine the consequence of this situation in the actual operation of a small loan office, and you will agree with me that the cost factor can

be very different from one province to the other and even from one district to another within the same province.

Is it necessary to compare with other industries to convince ourselves of this point? Is not the price of an automobile manufactured in Oshawa greater in Montreal than in Toronto? Greater still in Val d'Or? The cost of electricity varies considerably from one province to the other and even within the same province some differences in price are evident. Why all these differences? Because the cost factor is the final yardstick which determines the price of any service or manufactured product.

Our charges are ceilinged at 2% per month on the unpaid balance each month as everywhere else in Canada. These charges cover the necessary costs of maintaining our service to the borrower, insuring a proper investigation of requests for loans, and the cost of collecting monthly payments—the cost of these various operations is higher in the province of Quebec than in the other provinces and the main reasons are:

1. *Investigation cost*

An immediate consequence of the increased risk has been a more strict investigation of each loan application so as to compensate for the lack of adequate security by a reduction in the risk.

The consumer whose business is being solicited daily by so many stores and services of all kinds is generally prudent. However, his well intentioned plans are sometimes completely upset by an unforeseen interruption in his work caused by sickness or other reasons. He then has recourse to the lender and thanks to him, the burden of his debts is lightened. The budget is rearranged and an orderly, systematic debt reduction is made possible.

Human nature is such that the borrower tries to present the best possible statement of his affairs in order to increase his chances of obtaining the loan. It is, therefore, necessary for the lender to ensure that all existing debts be brought to light, otherwise an accurate appraisal of the situation is impossible. This has caused us to use to a greater extent than elsewhere, the services of Credit Bureaux or other agencies whose function is to compile credit information that helps us to verify the prospective borrower's statement; as everywhere else we have to face a higher cost in this field also. A written report from the Montreal Credit Bureau for example costs \$1.75. Over the last few years the cost of this service alone has increased 50%. The necessity for more thorough investigation has increased the number of telephones required and the added time and personnel needed to service the demand has all added to our cost.

It follows logically that the number of applications refused is higher in the province of Quebec than elsewhere. One of the larger companies whose operations extend to all parts of my province made its statistics available to me. They show that rejected applications are 10% higher in Quebec than in Ontario and 14% higher than in Saskatchewan. I may add that the large volume of business done by this company permits the company to take a greater degree of risk.

When one remembers that the investigation costs of all rejected applications cannot be recovered, it follows that this cost of doing business is greater for us.

2. *The lower average amount of loans*

It is agreed that part of the expense involved in the negotiation of a loan does not vary much regardless of the amount involved. It would, therefore follow that the margin of profit would increase as the amount of the loan increases. Because of the various factors already mentioned, we have had to not only reduce the individual risk but also we have had to reduce the amount given to each individual.

I can quote here the figures of two companies whose operations are vastly different. The one company, doing business exclusively in the provinces of Ontario and Quebec, advises me that of all money lent outside of the Province of Quebec, 70% is put out in loans exceeding \$500. In the Province of Quebec, the percentage of loans for original amounts of over \$500 drops to 45%. You can see the margin of difference. In the other company, one of the larger chains, the percentages are quite similar. In Quebec 55% of the loans by dollar volume are for original amounts of over \$500, whereas for the rest of Canada the figure rises to 70%.

I do not want to give you too many statistics, but the above figures show that it is impossible to arrive at an equal profit ratio from one end of the country to the other.

The rate set by the Small Loans Act must be high enough to permit a company regardless of its size and its geographical location to make a reasonable profit. It should not be necessary for it to spread its operation to all parts of the country in order to arrive at adequate earnings. Mr. MacGregor has seemingly tried to provide for the small loan business, the minimum rate at which the chain companies can operate at a profit, and in a year when the economic activity in Canada is at its highest level in history, and at a time when most wage earners, our usual customers, are having no difficulty in securing employment.

Must we conclude that where expenses are higher the field must of necessity be left either unserved or wide open to the larger chains who enjoy unlimited capital or borrowing power mostly of foreign origin? Surely, all Canadian families should have access to the service which is provided by the small loans companies regardless of their geographic location! This should not be a privilege accorded to a few.

Quite the contrary, the maximum rate must be realistic. Otherwise the only consequence can be a return of the illegal loan shark.

I would like to say a few words regarding the maximum rate for it is a maximum rate that is in the balance. From Mr. MacGregor's remarks, one might think that he has wanted to establish the lowest possible rate in line with present economic conditions. He then is setting up quite an obstacle in the way of good sound competition within the industry, for only the very large chain operators will be in a position to accept such a reduced gross income and they will naturally all charge the maximum rate. There will then be no difference between a minimum and a maximum.

The small loans industry needs a maximum rate high enough to permit this competition which is all to the advantage of the borrower for it will ensure adequate stability for this service now so vital to many Canadian families.

By creating this maximum rate as nothing else but a minimum operating rate, the only possible result will be:

1. The smaller companies, or the companies whose business is restricted to a part of the country where expenses are higher, will of necessity have to abandon the small loan field.
2. Even larger companies will no doubt restrict their operations in the localities where high expense ratios no longer make the field attractive to capital.

Without any margin remaining to provide a cushion for the probable increases in the costs to the lender, it follows that every year or so, members of this committee will be called upon to consider requests for an increased rate. If wages, rents and the cost of obtaining money continue to increase as they have been in the habit of doing for the last few years, the problem will be up for study twelve months a year. No industry could continue efficient operation under such circumstances.

Allow me to conclude my remarks by stressing a point which I feel has not yet fully developed during your deliberations. What would be the result of the application of the rates in Bill 51 from the borrower's angle? For after all, he is the one most vitally concerned.

Across Canada today, the borrower enjoys many privileges in his relationship with the lender. The two main ones are as follows:

1. *Choice of lender:*

Competition insures for the borrower a choice between different lenders whose services are not necessarily of equal value. Since 1940, when the Small Loans Act became effective, a large number of companies have at various intervals, and without any influence from the Department of Insurance, effectively reduced their rates. At this very moment in the bracket of loans originating over \$500 over 40% of all the dollar volume is carried at rates which are below the 2% maximum allowed on the smaller loans.

A rate which would permit only the larger companies to continue their service would tend to create a monopoly and would encourage the few lenders left to further reduce their risk to the point where the borrower will no longer be considered as an individual and his needs will be given less and less consideration. This result would defeat the original purpose of the Act.

2. *An equitable and fair consideration in cases of distress:*

The borrower at the present time is assured of every possible consideration in event of sickness, unemployment or any other disruption in the family income. This committee probably recognizes that an account does not go from an excellent credit standing to a bad debt from one day to the next. There is very often a progressive deterioration which is easy to observe. An overly demanding and harsh attitude at the very beginning of the delinquency helps the collection of these accounts for the security, apparent or real, is more readily within reach of legal action at that time.

An adequate rate permits the lender to take the necessary time to find a solution to the borrower's problem and also permits the taking of the added risk of a continued deterioration of the account and the ensuing frittering away of the borrower's assets. An unrealistic rate would force us to quickly realize our receivables in order to protect ourselves against an increased loss in bad debts or against the added cost of further debt-adjustment efforts. The best interests of the borrower would definitely not be served in this manner.

The choice of companies presently available to any borrower is a guarantee of fair treatment, for any lender not showing proper consideration for the borrower would see his customers go to another one more interested in the customer's welfare. If the rate is depressed to the point where only one or two of the larger companies whose size and spread of operations enable them to continue offering the service available to the public, this fair treatment guarantee disappears.

Generally speaking, the companies are fully aware of this social responsibility, but if it becomes economically impossible to continue along this line, the net result will be to the detriment of the customer, in spite of a reduced cost.

From the last available report of the Superintendent of Insurance for the year 1954, it can be seen that 787 legal actions were instituted by all small loan companies and licensed moneylenders during that year. When this figure is related to the 831,721 loans granted by these companies during that same year, and also to the fact that 20,950 accounts totalling \$2,941,411 are over 4 months in arrears according to the Department's own figures, it is apparent that in general the borrower is given fair treatment by the lender. This situation should not be allowed to change.

For the above reasons, I respectfully submit that the proposed rate as expressed in Bill 51 now under study, is too low. It is my hope that you will give the amendment proposed by the Canadian Consumer Loan Association all the study it deserves not only because of the reasons stated in their brief which apply to the industry as a whole, but also to ensure for the borrowing public a vital service at a reasonable rate which will guarantee fair and equitable treatment regardless of where he lives.

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HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956



STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

BILL 51

An Act to amend the Small Loans Act

THURSDAY, AUGUST 2, 1956

WITNESSES:

Messrs. C. M. Cawker, President, Canadian Consumer Loan Association;
E. A. Dunbar, Associate Counsel, Beneficial Organization; C. Gordon
Smith, Manager, Credit Union National Association, Inc.; and W. T.
McGrew, President and General Manager, Niagara Finance Company
Limited.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Gingues	Pallett
Ashbourne	Gour (<i>Russell</i>)	Philpott
Balcom	Hamilton (<i>York West</i>)	Power (<i>Quebec South</i>)
Batten	Hanna	Rea
Bell	Henderson	Regier
Benidickson	Hollingworth	Robichaud
Blackmore	Holowach	Rouleau
Cameron (<i>Nanaimo</i>)	Huffman	St. Laurent
Carrick	Knight	(<i>Temiscouata</i>)
Crestohl	Low	Thatcher
Deslieries	MacEachen	Tucker
Enfield	Macnaughton	Viau
Eudes	Matheson	Vincent
Fairey	Meunier	Weaver
Fleming	Michener	White (<i>Hastings-</i>
Follwell	Monteith	<i>Frontenac</i>)
Fulton	Nickle	White (<i>Waterloo South</i>)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, August 2, 1956

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Benidickson, Cameron (Nanaimo), Crestohl, Enfield, Fairey, Fleming, Follwell, Fulton, Hamilton (York West), Hanna, Henderson, Holowach, Hunter, Knight, Macnaughton, Matheson, Pallett and Power (Quebec South).

In attendance: Mr. Fernand S. Picard, President, Lucerne Finance Corp. Ltd.; Mr. E. A. Dunbar, Associate Counsel, Beneficial Organization; Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. Picard was again called; there being no questions of him, he was retired.

Mr. Cawker was again called; he summed up the case presented by Canadian Consumer Loan Association, and was again retired.

On motion of Mr. Follwell,

Resolved,—That certain statistical projections, earlier referred to by Mr. Cawker, be tabled later this day and be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix "A".*)

Mr. Dunbar was called; he addressed the Committee on the use of life insurance in connection with loans. He was questioned. Mr. Cawker answered questions specifically directed to him.

Mr. Dunbar being still before the Committee, at 1.00 o'clock p.m. it adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Bell, Benidickson, Cameron (Nanaimo), Crestohl, Deslieries, Enfield, Fairey, Fleming, Follwell, Hamilton (York West), Hanna, Henderson, Holowach, Hunter, Knight, Macnaughton, Pallett, Power (Quebec South) and Weaver.

In attendance: The same as at the morning sitting with the addition of Messrs. C. Gordon Smith, Manager, Credit Union National Association, Inc.; and W. T. McGrew, President and General Manager, and J. S. Land, Director, Public Relations, both of Niagara Finance Company Limited.

Mr. Dunbar continued his evidence; he was questioned, and was retired.

Mr. Smith was called; he read a short brief of his Association, copies of which had been distributed to members of the Committee. He was questioned at length, and was retired. Mr. Dunbar answered questions specifically directed to him.

Mr. McGrew was called; he presented a brief of Niagara Finance Company Limited, copies of which had been distributed to members of the Committee.

Mr. McGrew being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Bell, Cameron (Nanaimo), Deslieries, Enfield, Fairey, Fleming, Follwell, Fulton, Hamilton (York West), Hanna, Henderson, Holowach, Hunter, Knight, Power (Quebec South), Robichaud and Tucker.

In attendance: The same as at the afternoon sitting.

Mr. McGrew was again called; he continued the presentation of his brief, was questioned, and was retired. Mr. MacGregor answered questions directed to him.

At 10.00 o'clock p.m. the Committee adjourned until 11.30 o'clock on Friday, August 3, 1956.

ERIC H. JONES,
Clerk of the Committee.

EVIDENCE

THURSDAY, August 2, 1956,
11.30 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. Are there any questions you wish to ask Mr. Picard on his brief? We have an interpreter present so that questions may be asked either in English or in French and each will be interpreted. Has anybody any questions? If not, we shall now move on to the next witness.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

By the Chairman:

Q. Mr. Cawker, is that the complete case for the Canadian Consumer Loan Association?—A. Mr. Chairman and members of the committee: this completes the evidence of the Canadian Consumer Loan Association. I realize that our story has been long and sometimes a tedious one and I would like to express the appreciation of the industry to the committee for their patience because this business has for so many years been increasingly exposed to emotional rather than to factual considerations, and I would be the first to admit that you have been deluged with statistical data in an effort to keep our presentation factual.

Now we have used the Canadian companies—possibly just for the sake of a term, and just to sum up what we have tried to tell you through—I hope—my practical evidence, and the evidence of the accounting and statistical people—more to leave with you the thought that unrealistic rates do not simply put Canadian companies out of business but it is a fact that it removes from the Canadian people the opportunity to borrow in an area which we see is becoming increasingly important at legal rates. In other words, I say to you that with a rate at which money is not available to the Canadian people, historically it sends them to the loan sharks.

Now I have been 21 years in this business, and since 1939 I can say to you without fear of contradiction that we have had a steady improvement in the ethics and the approach to the business and the contribution to the borrower in helping in his budgeting, and for that I pay all the tribute that I should to our American cousins. But I think it is a solemn responsibility to regard the evidence of unrealistic rate cuts in many of the states of the union and I have referred to a few of them.

I realize that parliament occasionally has to legislate against Canadian business. Possibly a simple example might be in tariff; and I am not saying to this committee that if as Canadians we cannot operate as effectively and efficiently as other Canadian companies that parliament should set a rate which would permit us to stay in business simply because we are inefficient. I am saying that if we are going to see the removal of the service from the Canadian people then we have to look at it from the standpoint of what sort of rates will maintain and attract capital to service that area.

I am referring specifically to the area between \$1000 and \$1500. I have said—and I am not going to labour the point—that it is the large companies whose operations are I think more or less regarded as a yardstick in making the rates or in suggesting the rates. I can say very definitely that the Cana-

dian companies who service that field between \$1000 and \$1500 now cannot continue to do so, nor can the Canadian companies of course stay in business under the rates of Bill 51 in the area between \$500 and \$1000.

That of course possibly will not be of too much concern to this committee. There will be certain contractions, and we must face it, of the capital available to service that area between \$500 and \$1000. No doubt there will be some kind of service available under the rates of Bill 51, but such service as will be available will be beyond any shadow of a doubt a monopoly.

Whether this committee and parliament is prepared to legislate a monopoly at the expense of the Canadian businessman who is making some progress—quite some considerable progress in taking the position he should in this industry, then that of course, we must face it when we come to it.

The Canadian companies I feel—and I hope I have convinced you too to some degree—are servicing an area which is anticipated in Bill 51 but will not be able to continue to service it. The two largest lenders in the field do not service it at this moment.

After 21 years of attempting in my own small way, and with the great majority of lenders, to bring about a fair practice at a fair rate, we feel that it could not reasonably be contemplated that at this moment we should be put out of business. That in effect is what must happen.

We have made a suggestion in our brief of a rate which is somewhere between the rates in Bill 51 and what has been referred to as the “going rate” in the industry with the 40 per cent exception as you have heard.

We have not laid before you as an additional statistical piece of information what that rate will do as a projection. If it is the wish of this committee before it considers the bill clause by clause, I would be glad simply to table those projections without any further comment upon them. They represent a tightening of the belt by some of the very small Canadian companies, and of course our recommended rate anticipates a very large reduction in the income of the larger licensed companies in the field today.

Possibly we have been a little delinquent in not placing that information before the committee, but it seemed that there was enough information available at either end of the scale so that it could be reasonably assumed just where the rates included in our brief would place not only the large companies but the small companies as well.

I close my evidence once again with an expression of appreciation for the time that this committee has given to us. It has been 16 years really since there has been a close examination of the business. We know from experience that a public airing of our affairs is healthy. It helps an understanding of the business; and we also know from experience that if we are to progress and perform the service for the Canadian people that we should perform, we must be understood.

Some 860,000 Canadian borrowers that we know of last year, I believe, understand very well that they have had service and while there may have been the minimum of complaints about that service, we have yet as operators to hear any complaints about the rates.

I thank you very much, Mr. Chairman, and members of the committee.

The CHAIRMAN: Thank you, Mr. Cawker.

Mr. FOLLWELL: Mr. Chairman, Mr. Cawker in his closing remarks to the committee suggested that they have some further tables and projections of the effect of the rate which they suggested should be adopted in the bill, and he indicated that he would be prepared to table them. Therefore I move that they be tabled.

The CHAIRMAN: All those in favour of tabling these projections?
Agreed.

(See Appendix A)

Mr. CAMERON (*Nanaimo*): I am not sure if Mr. Cawker has answered this question which it seems was asked at one point, and it was in regard to the proportion of loans up to \$300 and the proportion of loans up to \$500, both in the number of loans and for volume. I think you said you were not in a position to answer it definitely before, if I remember it correctly. I wonder if you could get that data for us?

The WITNESS: I think we did answer it. As I recall it, we had a little bit of trouble figuring the percentages.

Mr. CAMERON (*Nanaimo*): I was not sure, but if it is already in, then very well.

The CHAIRMAN: Where are these projections you are going to table?

The WITNESS: Perhaps I should qualify that by saying that we would do so before the committee rose. We have them possibly not in a form to lay before you now, but within the next 24 hours. (See Appendix "A" hereto.)

The CHAIRMAN: The next witness is Mr. Dunbar, associate counsel of the Beneficial Organization or Personal Finance of Canada as it is still called.

Mr. E. A. Dunbar, Associate Counsel, the Beneficial Organization, called:

The CHAIRMAN: Mr. Dunbar.

The WITNESS: I speak for the Personal Finance Company of Canada and I would like to say before I proceed any further that we endorse the briefs of the association.

My primary purpose at this time is to discuss the subject of group life insurance in particular, insurance in general, and the entire problem of the use of insurance in connection with small loans.

By Mr. Fulton:

Q. For the record, Mr. Chairman, I wonder if Mr. Dunbar might qualify himself somewhat more fully than the chairman's brief introduction and state his actual position with the company?—A. I am a graduate of Syracuse University, A.B., and Columbia University, LL.B., a member of the New Jersey bar and I have been with the legal department of Beneficial for 15 years. During the last few years I have studied this entire question of insurance in connection with small loans. My activities have extended to all the states in the union together with the National Association of Insurance Commissioners who have studied this program of insurance very deeply. I have written many articles on the subject and in general I have more or less specialized in this problem of insurance during this period of intensive growth when there has been very little in the way of secondary or source information on the subject. You have to dig things out for yourself.

By Mr. Knight:

Q. Under what name does your company operate in Canada?—A. Personal Finance Company of Canada.

By Mr. Enfield:

Q. Have you any other companies in Canada or in the United States?—A. In the United States our companies are called Beneficial Finance.

Under the legislation passed in 1939 credit insurance or life insurance on the life of the borrower was permitted, but under the regulations issued in 1941—you would have found it necessary to send the borrower outside the office in order to obtain a policy of credit insurance.

Actually, there were no policies of insurance tailored to the needs of the small borrower or any other borrower on an instalment basis. There was no individual credit life policy but simply a policy of term insurance not tailored to the needs of instalment transactions on reducing balances.

Under that set-up the use of credit insurance has been most restricted. Mr. McGregor pointed out that there have been but two licensees in this country charging for the insurance, and there are a few who have been furnishing insurance at no extra cost. I think it is safe to say that less than 3 per cent of borrowers are covered by life insurance at this time.

One of the primary reasons so little credit life has been used is that the average individual insurance agent is not interested in selling any policy where the premium would be so small as it would be on a small loan, and the premium for the individual credit life insurance is quite high. It is a small premium. It is high in percentage rather than in amount. However, since 1939 the insurance industry has developed what is known as credit life insurance, group credit life insurance, and under that it is usual to charge to the borrower 50 cents for each \$100 of loan for each year. The average loan is about \$300, so that on a 15-month contract you would have to pay a premium of less than \$2. That is what you would have to pay for group credit life insurance.

We are proposing an addition to our service, a progressive addition to the service of the small loan company rather than a restriction on our service. We would like to increase the quality of this service to the borrower and to take care of a situation which is not now covered by our loans or our service at this time. It is not generally understood—nor frankly did we understand it until we commenced a study of life insurance in connection with small loans—that small loan lenders collect approximately 85 per cent of the balance which are unpaid at death. So do most other creditors. It was a large percentage and we did not think it would be so large.

The extent of the unexpected amount collected is due to the fact that the wife or the surviving spouse will come in and pay off the loan after the death of the husband without telling the manager that the husband has died. We did not realize that until we instituted credit life insurance in some of our offices which of course provided a reason for the wife to inform the manager or the lender of the fact of death in order to have the loan paid by the insurance. In other words, 85 per cent of the benefits under credit life policies go to relieve the borrower of the necessity of paying any balance unpaid at death which borrowers' families would otherwise pay out of the estate.

I make no reference to the emotional difficulties—if I may put it that way—that the borrower gets rid of by having the loan paid off. Many of them have small insurance estates, of course, but those estates were intended to pay the cost of the funeral and a few other miscellaneous items. The majority of small loan borrowers obviously have very little insurance and in insufficient amounts. Furthermore, it was never intended to cover instalment debts, which come up and go down in accordance with the borrowings of the individual family involved.

Credit insurance covers that and it covers it at a cheaper rate than any other life insurance available to anybody. It is the cheapest insurance you can purchase on the open market unless you get insurance—insurance provided by employers as something in connection with the employment where

the rates are cheaper because it is part of the man's compensation. Credit life insurance is the cheapest life insurance we can purchase.

Perhaps it would be worthwhile to discuss briefly some of the mechanics of credit life policies where the borrower pays the cost because it involves the amendment to Bill 51 specifically, and it involves a problem, which I do not think it is generally appreciated.

Under a group credit life policy the lender pays the premium. Normally those premiums are 75 cents a thousand per month; that is per \$1,000 outstanding. Those premiums are often reduced depending of course on the mortality experience of the company involved and the dividends paid by mutual companies on items of this kind.

You will pay 75 cents per thousand for the first year at least in order to get the policy into effect, and that premium is paid by the creditor and it depends on the amount of the unpaid balance of the loan.

On the other hand, the borrower pays 50 cents for each \$100 of loan balance, and that is taken by the creditor and used to pay the premiums. The borrower pays what is called an identifiable charge, and I would like to point out the specific use of the word "charge" here because it is involved in the legal situation I shall discuss later. The 50 cents on the \$100 identifiable charge is predicated upon an assumption that the borrower will pay his debt on the due dates and will pay it off at maturity. If he does that, the amount of premium which the lender will have to pay on the outstanding balances will amount to approximately 49 cents or 50 cents. If the borrower is delinquent for any length of time the unpaid balances of course increase in amount and the lender is obligated to pay the premium on the actual unpaid balance rather than the contractual unpaid balance, and they are quite apt to be somewhat higher.

Nevertheless the fifty cents charge has become customary and is used by most of the larger institutions, the banks and so forth, and that is where it grew up and where it was worked out.

The borrower receives a certificate which shows the fact that he is covered.

There has been some discussion about abuses, and I would like to say that it is extremely unwise to discuss credit insurance as a lump concept. Credit insurance is a particular type of contract or a particular type of transaction which you have in mind and to discuss abuses of credit insurance generally is to befuddle the issue.

Our proposal—and it is unfortunate that our proposal should be made at this point, and that the proponents should speak at the end of the consideration rather than at the beginning—our proposal is that we amend Bill 51 to add a provision which will provide—at the end of page 1, line 14, of Bill 51.

Mr. ENFIELD: That is not Bill 51, that is the original act.

The CHAIRMAN: No, I think he is referring to Bill 51.

The WITNESS: Yes, I am referring to Bill 51, and it is at the end of the word "claim", in the first clause which substitutes a new section 2 paragraph (a). The language immediately preceding the amendment which we propose reads: "or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed, . . .".

We wish to add at the end of that language the following:

. . . provided, however, that the definitions in this section 2 shall not preclude . . .

The CHAIRMAN: You mean section 1, do you not?

The WITNESS: Bill 51 is at this point an amendment to section 2 of the Small Loans Act.

... shall not preclude collecting from the borrower, in addition to the cost of the loan, not in excess of \$50 cents per \$100 per annum of the original amount of the loan for its full term for group life insurance on the life of the borrower covering the unpaid balance of the loan subject to:

- (A) Such insurance being optional with the borrower;
- (B) refunding or crediting the unearned cost of the insurance computed in accordance with a formula or schedule approved by the superintendent and included in every policy, certificate or other memorandum of insurance delivered to the borrower; and,
- (C) such insurance being issued by an underwriter approved pursuant to Canadian law.

Insert on page 2, line 25 of the bill after the word "section" the following:
except for group life insurance in accordance with the conditions specified in Section 1 hereof.

I wish to apologize for not having copies, but I have not had the facilities available to me. The amendment will make the insurance optional to the borrower. The purpose of such an option is to prevent coercion of the borrower into the purchase of this insurance.

By Mr. Enfield:

Q. Just do not give him the loan.—A. The small loan industry does have repeated refunding of loans. Under law it is necessary to make a new loan each time, each time the borrower makes even a small addition to his loan, and it is therefore imperative that there be a rigid system of refunding of the cost of the insurance. The amounts involved are quite small in view of the very low cost of the insurance initially. Nevertheless, such refunds would have to be made each time.

I would like to speak briefly about Bill 51 itself in so far as it covers insurance. Under the law as passed in 1939 the items listed as part of the cost include such things as: chattle mortgage fees, recording fees, fines, penalties, charges for increased defaults, and renewals. Each of those items are expenses of the lender which he might have asked the borrower to reimburse him for. They were properly included in the cost of the money. The amendment includes, by its language, charges for life insurance. I find it difficult to understand exactly what is meant by "charges for life insurance". The insured customarily pays a premium for an individual policy. The only time that he would pay a charge would be a charge for a group policy. It is true that people will speak generally about a charge for insurance, perhaps, but, those charges are not paid to the lender, they are paid to a third person. There is nothing in this language that indicates what is meant by "claim" at the end of line 14. It does not name by whom. It says, "—or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed, —". It does not state by whom. Thereafter it is provided, as it has been in the 1939 act, that these items are included whether they are paid to, or charged by the lender or by any other person. We therefore have the possibility of a borrower buying an individual policy of credit insurance from an outside agent, and to secure the loan without the lender having anything to do with it. I wonder whether that would be included in the charges for the loan. Is that part of the cost of the loan?

I would also like to point out a serious problem because of the doubt which is raised in respect of motor vehicle insurance. It is contemplated that you will raise the ceiling to \$1,500, which means that many loans secured by motor vehicles will now come under the jurisdiction of this act. The words

"—or as otherwise claimed—" will, I think, be construed in accordance with the items previously enumerated. But, now the bill has enumerated charges for life insurance and other items which are paid to third persons rather than to the lender. Motor vehicle insurance premiums are also paid by the borrower to a third person. He is sent out of the office to an independent agent. I would be presumptuous, indeed, to give a legal opinion on this matter, but, there is, as far as we have been able to make out, serious doubt as to whether or not we will be able to require motor vehicle loans to be insured and whether the premium for that motor vehicle would not be considered a "charge", if the premium for life insurance is a "charge". The difficulty comes, I think, from the use of the word "charges" to describe premium. There is little doubt, however, that charges for group life insurance will be barred by this language. They are called "charges" and are known as "charges" in the insurance industry. They will be barred, and that is the cheapest type of life insurance that we can use.

By Mr. Fulton:

Q. Just one point there, you are suggesting that they would be barred if the company absorbed the cost of it?—A. No, sir. I do not think there would be any objection to our giving anything away to the borrower free of charge.

Q. You are barred from charging it to the borrower?—A. Yes.

By Mr. Fleming:

Q. Mr. Chairman, I wonder if it would not be well for these suggestions, some of which relate to draftsmanship, apart from the merits of the proposed amendment, to be referred to Dr. Ollivier; and Mr. Dunbar could discuss the matter with him, or Mr. MacGregor. What Mr. Dunbar has said about the word "charges" I think involves a question as to draftsmanship, which I think could properly be referred to Dr. Ollivier.—A. I would be glad to cooperate but, frankly—I am somewhat timid about drafting Canadian statutes.

Q. If the amendment were to be considered on its merits, it would have to go to Dr. Ollivier anyway, I take it, Mr. Chairman, on the matter of draftsmanship. There are some things which strike one in connection with draftsmanship to the amendment, and I just put forward that idea to save time. Perhaps these suggestions that Mr. Dunbar has put forward might be referred to Dr. Ollivier, and we could hear his comments on them later.

Mr. BENEDICKSON: Mr. Chairman, my impression is that statutes that effect the department are originally looked at by the legal section of that department. Then, I think they go to the Department of Justice, and in the final appearance of the bill they go to Dr. Ollivier. I would think that the reference would have to be made to the department.

Mr. FLEMING: It is quite all right where they go. I am just thinking about saving our time here. We are getting into questions of the nicety of certain words. That ought to be referred to those who, after all, do advise the committee on draftsmanship, and while Mr. Dunbar is here, and would be available to discuss his points with those who will be advising the committee on draftsmanship.

Mr. BENEDICKSON: In other words, Mr. Fleming, as long as the chairman and clerk see that the proper channels are used for the analysis of this proposal, you have no particular reference to Dr. Ollivier?

Mr. FLEMING: Oh, no. Mr. Chairman, there was no thought of confining it in any way. Let us say, broadly, those who are responsible for draftsmanship of the bill.

The CHAIRMAN: The question, as I see it, for the committee is not so much the specific wording of this proposed amendment. The question before the

committee would be whether they favoured that type of amendment, and the actual wording then could be worked out by the proper officers.

Mr. FOLLWELL: I think, Mr. Chairman, we are concerned pretty much, not about niceties of the words but by the effect as they appear in the bill.

The CHAIRMAN: Yes.

Mr. FOLLWELL: In regard to the ultimate charges on the borrower, who is eventually going to pay for the service?

The CHAIRMAN: I am afraid that superficially this optional feature reminds me of the voluntary revocable check-off.

By Mr. Crestohl:

Q. Mr. Chairman, apart from the question of draftsmanship, I think it might be helpful to the committee if the witness would, by hypothetical illustrations, say on a loan of \$300, or \$500, illustrate how that proposed amendment would operate.—A. I would like to say to the committee that I did have a rather lengthy presentation with a large volume of statistics but, I have been sitting here with the committee, and I sensed a certain reluctance in respect of statistics, and it seemed wise to leave them out. I do have an example. Can I use this example? I have an example of a loan of \$300 for 12 months.

Q. All right.—A. On a loan in that amount for 12 months the cost of the insurance would be \$1.50. It would be deducted from the amount of the loan. The borrower would receive the remainder in cash. Of course, the lender would then—

By Mr. Knight:

Q. It would be deducted at the time the loan was made?—A. Yes, sir.

By Mr. Follwell:

Q. Was that a \$300 loan, did you say, sir?—A. Yes, on a \$300 loan for one year, the insurance would cost \$1.50.

By Mr. Crestohl:

Q. Now, illustrate what the borrower receives in return for that \$1.50, beneficially.—A. If he should die at any time during the term of the loan, the unpaid balance of the loan would be paid in full; not the accrued charges. The lender will customarily forego the accrued charges, but the unpaid balance would be paid on the loan. If it was at the end of six months, perhaps half the balance would be paid, depending on the payment schedule that is adopted.

Q. From your experience, can you give the committee any indication, perhaps, of the percentage of calls made for repayment of loans from the proceeds of life insurance?—A. Yes. The small loan borrower dies each year at a rate of about $6\frac{1}{2}$ to 7 per thousand each year. The dollars paid are approximately at the same ratio, you see, somewhere between \$6 and \$7 a thousand. It depends on the type of underwriting that takes place in the credit judgments on the loan. There is a definite correlation between mortality and the kind of loan or the kind of persons that a particular lender might lend to. If he makes a lot of loans for medical purposes the mortality rate will probably be a little higher, I am afraid. But, there is also, of course, a correlation between the mortality rate and the person's economic status. The lower the economic status, the higher the mortality rate. The small loan borrowers have a much higher mortality rate than, say, the purchasers of new cars. There is a distinct difference there. Persons who buy new cars have a confident look on life I think, and it seems to make a difference. Whereas, a man who

comes to the small loan company is in distress. There is some correlation there. I know the facts, but I do not know the reasons.

By Mr. Fleming:

Q. Mr. Dunbar, has it anything to do with the fact that often people who are buying new cars are, on the whole, perhaps younger than the average age of your small loan borrowers?—A. That is true. The average age of the small loan borrower is 40.

Q. Have you any figures on the average age of those who are being financed on the purchase of a motor car?—A. I do not, sir. All I know is that the mortality rate there is somewhat lower.

Q. Are those Canadian or American statistics, or a combination of both?—A. They are a combination of both.

By Mr. Knight:

Q. I would like to ask a question on the history of the defaults on small loans of various people who die, or on the part of their estates. What has been the experience of the companies in the collection of loans where the borrower became deceased, or the defaults by those estates? In other words, what is the interest of the company from a purely, shall we say, selfish point of view on that particular matter?—A. The point of view of the company from a completely selfish view would be that we collect; at the present time we have to charge off 15 per cent of the balances unpaid at death. That is an economic loss. I think, from the company's viewpoint, more important than that sum is the time and expense of collecting the claim after the death of the husband. The number of calls that would have to be made, the legal counsel that might have to be employed in the handling of the estate, and the tremendous detail and the difficulty involved in the handling of deaths and in collections where death is involved, are the reasons why the company would be interested. It is most definitely a benefit to the lender.

By Mr. Argue:

Q. What would the cost to the company be of that change, the cost of collection of the average \$300 loan, for example?—A. I do not know, sir.

Q. What I am getting at is this: you would ask the borrower to pay \$1.50 if he borrowed \$300 for 12 months?—A. Yes, sir.

Q. I want to know what part of that \$1.50, on the basis of the experience of small loan companies, would accrue to the benefit of the small loan companies, because they would have to undertake the extra cost of collections and so forth, and you are asking the borrower to pay a certain sum of money. Part of the benefit will go to the company.—A. Yes, sir.

Q. Because of certain costs that will be saved. My question is: What percentage of the benefit goes to the company by way of savings?—A. I have already pointed out that 15 per cent of it would go to the lender through payments of claims which we would not otherwise be able to collect. Now, you are asking me to give the actual cost of the collection of balances which are unpaid at death. I cannot do it, Mr. Argue.

The CHAIRMAN: The question that occurs to me—

The WITNESS: I would like to say that I do not think anyone else can answer that, either. It is extremely difficult to make a cost analysis of the handling of individual items in a financial institution. We did a cost study in respect to the cost of issuing individual policies of credit insurance in some of the American states. We were literally staggered by the cost involved in some items that we thought were very small. But, the studies were extremely

expensive and take considerable time, and when we were all finished, the results were really based on opinion, in the first place. It is just impossible to unscramble eggs at times.

By Mr. Argue:

Q. What proportion of outstanding balances now are covered by insurance in Canada?—A. In Canada?

Q. In Canada.—A. I would say Niagara has a policy, and I know of no other company, except one or two that sell insurance. I would say less than 3 per cent of the borrowers have insurance in Canada at this time. It is an extremely small percentage.

Q. Fifteen years ago would it have been only zero?—A. No. I think that there were some companies using credit life insurance before 1939 as well. I think it has remained constantly at a very low level.

By Mr. Fleming:

Q. What is the comparable percentage for the United States, Mr. Dunbar; have you any figures on it?—A. The amount of credit insurance in effect in the United States is very large. Credit insurance is used extensively with small loans in about 15 states in the United States at this time. In those states, from the available statistics, about 75 per cent of the borrowers purchase insurance. I am speaking now only of the states where they have regulatory small loans law. There are approximately eight states in the union that have no small loan laws, where the high-rate illegal lender operates. No one has any statistics on what is going on in those states; they are out of my statistical picture entirely. About 15 states of the regulated states have it, and it is used in those states. The actual volume of it in respect to small loan lenders I do not know.

By Mr. Crestohl:

Q. Mr. Dunbar, may I suggest that you clarify for the committee that the proceeds from such an insurance charge would go to pay the balance of the debt owing by the deceased.—A. Yes.

Q. Regardless of the estate's ability to otherwise pay the debt?—A. Oh, yes, sir. Not only does that happen, but the group policy itself specifically provides that the proceeds of the insurance must be applied to the payment of the debt. The financial picture of the estate of the deceased would be of no significance. I did not realize that was your question, Sir.

Q. Yes. I thought it should be clarified.

By Mr. Fleming:

Q. The finance company is the beneficiary for value under our insurance laws.—A. Yes, sir.

By Mr. Enfield:

Q. Mr. Dunbar, how then can this optional clause work? You say it is optional on the borrower?—A. Yes, sir.

Q. It reduces the risk to the company if the insurance is taken out?—A. I will put it this way: there is a tremendous amount of competition in the small loan business. The idea that there is no competition is a hangover from the days before regulatory small loans laws when there was in effect only one lender operating, and it was sort of a speakeasy arrangement. If you got to know "Joe", you had to borrow your money from him. That was when there were no regulatory small loan laws. Now if the borrower does not like the way

you handle him, he merely has to go across the street, and there is a lender over there ready, willing and able to make a loan to him, if he qualifies. The idea that any lender, after the expense of maintaining his office in order to keep up his business, would ever force a borrower to spend \$1.50 for life insurance when the total benefit to the company is so small—is just hard to think of happening. The only statistics we have on this item of option have come out of the state of Indiana, where they made a survey of some 400 small loan companies which were selling life insurance. In those companies only 75 per cent of the borrowers chose to purchase the insurance.

The 75 per cent item in itself has a significance here. In group credit life insurance, in particular, you have to have 75 per cent participation, normally, in order to qualify for these low rates. The figures on the small loan borrowers in Indiana, were only 74 or 73 respectively, in the surveys made in that state. They were very recent surveys made this year for the purposes of a legislative investigation which was made in the state of Indiana.

By Mr. Henderson:

Q. Does this insurance, in the case of guarantors, cover the guarantors also?—A. It only covers the principal borrower. If the principal borrower dies the loan is paid off. The co-makers, the chattle mortgagors and anyone else is completely released from the loan upon the death of the principal borrower.

Q. Supposing the principal borrower was, say around 77—no, suppose the principal borrower was around 50, and the co-maker was around, say, 80; is this a proposition whereby somebody who is literally not insurable otherwise might become insurable under this arrangement?—A. You speak, sir, of the problem that haunts the underwriters of group credit life insurance policies. What happens in the situation which you outlined is that the co-maker, an 80-year old co-maker, and the borrower meet outside the office, I am afraid, and they switch positions, and the borrower becomes the 80-year old man. That is a problem involved in the writing of this type of insurance. It is true, though, that many folk, who cannot otherwise obtain insurance, can get credit life insurance.

By Mr. Fulton:

Q. Mr. Dunbar, one of my colleagues here was just discussing with me—and the question I am about to ask puzzles me also, because I do not know much about insurance law—but, you said it cost 75 cents a thousand?—A. That is per month.

Q. For this credit insurance.—A. Yes.

Q. And because of your administrative cost of issuing certificates, and processing them in the event of death and so on, you charge 50 cents per hundred to the borrower? Would it be possible to arrange a group insurance policy as between the lending company and the insurance company, on a basis that everyone who receives a loan from the lending company is automatically covered, and that would save the issuance of certificates, and would to that extent, reduce the cost of including the individual borrower under group coverage?—A. No sir, the 50 cents per annum per hundred collected merely pays 75 cents per thousand per month.

Q. I am sorry.—A. They are just different ways of stating the same thing. That is the way the insurance companies do it because of the fact that the insurance company is concerned with the actual unpaid balances for which they are liable; whereas the lender at the time the borrower is in the office can do nothing but presume that the loan will be paid on its scheduled due date. Of course, if the man is delinquent, the amount for which the insurance

company is liable will be in excess of that under the scheduled payment dates, and the insurance companies insist upon the lender paying on the basis of the actual coverage hence the two methods of computation. However, where payments are made upon the scheduled due dates, the 50 cents per \$100 of loan per annum is exactly the same as 75 cents per thousand per month on the unpaid balances.

Q. It looks as if you will have to pay \$9 per annum to the insurance company and you are selling it at a rate which would be \$5 per thousand.—A. That may appear to be so but that we are talking about a reducing balance obligation so it would take two obligations to make the total level trim with the \$9 charge.

Q. On the basis of your previous answer you are in effect passing on insurance at cost to you?—A. Yes sir.

Q. At cost in so far as it could be worked out.—A. Yes, in so far as it can be worked out; the administrative cost is borne by the lender. He has to keep certain records for the insurance company and other items of that nature.

Now I would like, if I may, to speak briefly about the certificate. The certificate of insurance is necessary because we want the borrower to know that he is insured. If the borrower is merely informed of the insurance and should die, for example, it may be that the person handling his estate would have no knowledge of the insurance and might come into the loan office and—we know this is so—and would pay off the loan. The girl at the desk would have no reason to inquire and she would just accept the payment. So a certificate is necessary in order that there may be something in the personal effects to indicate the fact of insurance.

By Mr. Fleming:

Q. Your answer about this insurance being available simply at cost, I take it, is based upon your experience in the United States? Has any study been made in Canada based upon comparable insurance rates to see if the proposed charge of 50 cents per \$100 per annum would represent insurance at cost, if credit insurance were more widely applied in Canada?—A. No. You must remember that we are a regulated industry and before we can undertake anything new we have to get permission in the first instance from parliament in order to do it.

Q. I appreciate that, and I wondered if you had along with the insurance companies in Canada, made any study of the cost?—A. We have been dealing with Metropolitan and they indicate that we will have to pay them approximately 48½ cents. That is their guess of it at this particular time, but they have had no experience with small loan borrowers.

Q. In the United States are they paid exactly 50 cents?—A. Yes sir.

Q. So will it be three per cent generally speaking in Canada or 2½ per cent?—A. It may be a few pennies off, but I do not think so. However, when they get the mortality for small loan borrowers they will know.

Q. But you will admit that it is appreciably the same?—A. Yes sir.

By Mr. Enfield:

Q. The witness mentioned Niagara Finance; do they not provide insurance at no cost to the borrower?—A. Yes sir.

Q. Is that the same type of thing that you contemplate?—A. Yes sir.

By Mr. Macnaughton:

Q. What about the Caisse Populaire: don't they do it?—A. I believe so, although I do not know of my own knowledge. However, I have been informed that they do.

By Mr. Follwell:

Q. Can you tell the committee what is the general practice among all the companies when a borrower dies before he pays back his loan?—A. They collect.

Q. From whom?—A. From the estate or from the co-maker. You must remember that in this modern age the wife is normally obligated on the loan and in many instances she will also be employed, and they will collect from the surviving spouse.

Q. You indicate that they do not collect 15 per cent of it?—A. That is right.

Q. They collect the other 85 per cent either through payment by the guarantor or co-signor, or from the insurance company. Is that right?—A. Very rarely from the insurance company. They collect from the estate; they might have to sell a security or take some further action. In that respect I would like to say that the explanation of the collection activities necessary could be exaggerated. At least two out of every six—at least in the case of two out of every six deaths the borrower's spouse simply comes into the office and pays up the loan without even telling us that the husband has died. The average Canadian citizen has very little interest in avoiding his obligations simply because the husband dies. That is not part of their thought, and the idea that they could get out of it does not appeal to them at all because it is just not part of their character.

By Mr. Crestohl:

Q. Do lending companies carry an over-all insurance policy to cover them for bad debts or for non-collectible debts?—A. No sir.

Q. Credit companies who sell to wholesalers or who sell merchandise do cover themselves with a credit insurance policy against bad debts, bankruptcies, and so forth.—A. Yes.

Q. Would it not be helpful, or have you given any consideration to the lending companies that they themselves should carry a blanket insurance policy to insure them against bad debts which may result through the debtor's account not being collectible as a result of death, poverty or non-payment? That would be an obligation carried by the lending companies which it seems to me would cover them against most contingencies—I was going to say all of them, where debts are not recoverable. It would, in my opinion, eliminate this complicated machinery of insuring individual borrowers under a collective policy.—A. The difficulty is that that insurance is not available to small loan companies.

By Mr. Fulton:

Q. Would you please repeat that?—A. Insurance companies are not interested in our accounts.

Q. On that basis?—A. Credit insurance is primarily used by banks on receivables—overseas receivables in particular—and it is used extensively, I know, in most of the large commercial centres. But they are interested in large accounts and they are not even vaguely interested in our accounts where the average unpaid debt is such a small amount of dollars. With the clerical details and everything else involved together with the gross volume—they just are not interested; they just will not take it.

By Mr. Cameron (Nanaimo):

Q. Mr. Dunbar, if this insurance amendment passed, would that obviate the necessity for companies setting aside reserves for bad debts?—A. No, sir. It will have an infinitesimal effect upon charge-offs.

Q. I see.—A. The accounts, where the borrower dies, are not charged off, they are collected. This 50 cents goes primarily to help the family of the deceased borrower, that is where it goes. It is a benefit to the borrower. The 50 cents a \$100 group credit life insurance, to which I refer is a benefit to the borrower and it is the cheapest—

Q. As well as to the lender?—A. It is a benefit to the lender, yes, there is no question about that; but, it is not a great enough benefit to the lender to create any great demand such as there would be on a more profitable enterprise from the lender's point of view. It is simply an addition to our services, which we suggest and recommend very strongly that you adopt.

By Mr. Fulton:

Q. Mr. Dunbar, we are told that Niagara and one other company in Canada issues insurance policies to its borrowers without charging it directly to the borrower.—A. Yes.

Q. I take it that we must assume that they do not increase in some indirect way, some other charges?—A. I am sure they do not.

Q. I think Niagara operates reasonably profitably?—A. Yes, sir, it is a very fine company.

The CHAIRMAN: Not according to the tables.

By Mr. Fulton:

Q. I am interested in knowing why, and maybe you cannot speak for the other companies, but can you tell us why your company does not think that you can or should follow the policy being followed by Niagara. Why is it important to you to be able to pass on the charge of insurance instead of absorbing it?—A. Where you have a maximum rate set at, perhaps 2 per cent per month as we now have, the use of the rate depends on the credit policy adopted in the office. Skilful, knowing lenders can adopt a credit standard that will operate at virtually any rate you might mention. The services will be cut down in so far as borrowers are rejected. That is the difficulty. Where the rate is reduced the loan standards are changed. When you reduce the rate certain borrowers are denied a loan. It is a very simple fact.

Q. In other words, you are saying, in effect if you are going to make a broad general coverage, your margin per loan is not sufficient to absorb the cost of insurance?—A. Yes.

Q. If you are running an exclusive business, and I use that term somewhat loosely.—A. Yes. The Personal Finance Company maintains a full loan service in our part of the market, so to speak—this does not mean that the other part of the business is not equally important,—but we make smaller loans, loans of less than \$1,000, customarily. We have, I think, as liberal a loan standard as is possible to adopt under the present rate. There is no margin in there for credit life insurance coverage. It must be remembered, that we have \$60 million, approximately, outstanding. I am dropping the fractions for the purposes of discussion. If we were to pay for credit life insurance at \$9 per \$1,000 outstanding, it would cost the company roughly \$540,000 a year. This would only relieve us from charge-offs on 15 per cent of the balances unpaid at death. Consequently, a large percentage of that expense goes against our earnings directly, without any compensating factor.

Many companies give insurance away at no extra cost because it is a business-getting vehicle. It is a popular thing. People like insurance. However, I would like to make this point in respect of insurance at no extra cost: Our experience in the states has been that wherever lenders are allowed to charge for insurance there will be a much greater percentage of insurance at no extra cost, because of the competitive factor that comes into the picture.

Borrowers become used to credit insurance and they like to have it. Perhaps in the initial stages they do not but, if a borrower dies in a particular neighbourhood and is insured, it is extremely difficult to make loans in that neighbourhood without insurance the wife having become aware of the value of the insurance. It is a cumulative thing. In the states, most of insurance given away at no extra cost is given away in states where insurance is sold. That would be states like Nebraska, Louisiana, Kansas, and Pennsylvania. In those states the insurance is given away there at no extra cost. In states like New York, where insurance cannot be sold, no insurance is given away.

By Mr. Macnaughton:

Q. Mr. Dunbar, what would be the cost of insurance if the loans were extended to 15 months, or 20 months?—A. It would be the same proportion, sir. I do not have those figures readily at hand.

Mr. Fulton:

Q. Could the witness explain to me what is the implication of clause (b) of the suggested amendment, refunding or crediting the unearned cost of insurance, etcetera? What are you seeking to accomplish there?—A. If a man pays 50 cents on \$100 for a loan for one year, and he should refinance that loan at the end of six months, the 50-cent charge would not be earned. He would therefore be entitled to a refund on the unearned portion of the 50 cents. It seemed best that the formula for that be promulgated under the regulations of the superintendent.

Q. And would be refunded, or credited towards a further policy on an extended period?—A. Oh, yes, that is a mechanical difference, of course.

By Mr. Follwell:

Q. Mr. Chairman, I see you looking at your watch, but before we leave for lunch, to keep our trend of thought, I asked Mr. Dunbar a question about the general practice of all companies. Now, I understand, Mr. Dunbar, that you are an officer of the Beneficial Finance Company in the United States. I would like, Mr. Chairman, if I have your approval, to put that same question to the representative of the Canadian Consumer Loan Association. So, Mr. Cawker, I would like to ask you what the general practice is of the Canadian companies, in regard to a borrower dying before he refunds his loan?

MR. CAWKER: I can only speak from the actual reference to the files that I have seen of the largest lender, and to keep it in more general terms, various welfare agencies that I have talked to, seem to support this principle, at least. The Canadian companies recognize, I think not completely unselfishly—and I will concede that there is a social significance here—that in the case of death in a family, death of, let us say, the wage earner, the provider, I would not quite agree with Mr. Dunbar that we collect 85 per cent. I believe those are American statistics. I have no statistics to prove, or to support just how many unpaid balances from a family where there has been a death, are collected. I can only give you my reaction from practical experience.

I have yet to hear of one of our members who has taken action against an estate in the case of a death or, let us say, has pursued a widow or a surviving wage earner in a family to collect an unpaid balance. I think that is just plain bad business. That has nothing to do with the merits of insurance.

I agree with what Mr. Dunbar has said and I agree with the principle of insurance as I said in my evidence the other day; but I do not agree that in the case of a death in the Canadian economy that the lender goes out and collects. I do not think actually that it is a good policy—with all due

respect to Mr. Dunbar's company in Canada—because I know of some benevolent societies which have written appreciative letters based upon the action taken by companies. I cannot name them, but it seems to me that I recall hearing the name of Personal Finance in the case of a charitable writer; and it is one of the small contributions which we can make in supporting the social function of this business.

The CHAIRMAN: Gentlemen, it is now one o'clock and we are hereby adjourned to meet again at 3.30 p.m.

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: We have a quorum, gentlemen. Are there any further question which you wish to ask of Mr. Dunbar?

Mr. E. A. Dunbar, Associate Counsel, the Beneficial Organization, recalled:

By Mr. Follwell:

Q. Mr. Chairman, Mr. Dunbar, I think, has indicated to the committee that he has had considerable experience in the insurance field. I raised the question earlier in the proceedings about payments of premiums, either on the basis of annual, quarterly, monthly or in the industrial field on a weekly basis. I am not sure if the witness would feel that he can answer this, but if he could I am sure he would give the committee some information. Would you tell this committee, Mr. Dunbar, what rate, or per cent, figured on an interest rate would be the difference between an annual premium payable in one amount or in quarterly premiums or in monthly premiums or in weekly premiums on an insurance policy? The reason I ask that, Mr. Chairman, is that I read an article not long ago in our own local paper which pointed out that insurance premiums, if I recall it correctly, on a 12-month period were about 16 per cent. I was amazed. I had no particular experience in the insurance field. This is the first time the committee has had before it a witness who says he is experienced in the insurance field. If you could answer that question, I would be very gratified to have the information and I am sure the committee would also.

—A. I do not have too much experience in respect to the payment of insurance premiums except in connection with loans. I am aware of the fact that where an insurance premium is payable in monthly instalments, or semi-annually, there is an increase in the gross amount of the premium to take care of the fact that a premium is payable in instalments. In those cases with some companies it is about 16 per cent; but that varies from company to company. Most insurance companies like to have their premiums paid on a yearly basis which means that they get their money in advance for the whole year. They do make an increased charge for the acceptance of semi-annual, quarterly or monthly payments. I do not think that anyone knows exactly how much it is; there is no set amount, the companies vary.

I must leave my answer at that point. You would have to have an actuary to do that for you; I am not an actuary.

Q. It was a point which bothered me when I read that. I thought that if you could answer it I would be glad to have the information.—A. I would suggest that you get an actuary from an insurance company.

Q. It would appear to me that the charge paid might be in excess in the light of other bank charges.

The CHAIRMAN: I think, Mr. Follwell, that you had better change your weekly premium's to monthly premiums.

Mr. FOLLWELL: I will do that right away. Like many other Canadians, not being very well off, I am forced to buy insurance and pay weekly payments.

The WITNESS: I would like to say, however, that the expense of accepting small payments is considerable. Clerical expense is one of the elements in the small loans business. There is a considerable expense in accepting and taking care, accountingwise, of a lot of small payments as contrasted with one single payment. It is an element involved in the retailing of any transaction of insurance, loans or otherwise and it is becoming more so in today's labour market.

The CHAIRMAN: Are there any further questions, gentlemen? If not, we will move on to the next witness. It was proposed at this time to call Niagara Finance, but M. C. Gordon Smith, manager of the Credit Union National Association, has come today and has requested that he be permitted to give his evidence now because he has to be in the United States tomorrow. I have taken the liberty of advising him that we would hear him at this time. I hope that that will meet with your approval.

Agreed.

The CHAIRMAN: Mr. Smith.

Mr. C. Gordon Smith, Manager, Credit Union National Association, Canadian Branch, called:

The WITNESS: Mr. Chairman and members of the committee, I am employed by the Credit Union National Association as its manager for its Canadian operations. We work from the Canadian office at Hamilton, Ontario. We function in the ten provinces of our country and provide services over and beyond those offered by the individual credit unions throughout this country.

I have been connected with the credit union movement for more than twenty years, the last fifteen on an active full-time basis. My brief will be very short because I realize that the committee has been sitting for some time. We only wish to offer comments on the proposed Bill 51.

In want to thank the Chairman and the committee and particularly your secretary for making it possible for my being here today.

Recently our work has been quite extensive throughout Canada requiring continual presence in other parts of the country, so I do appreciate, Mr. Chairman, the opportunity of being here today to present to you this brief.

This brief is presented on behalf of the Credit Union National Association with Canadian headquarters at Hamilton, Ontario, appearing on behalf of 2800 credit unions in the ten provinces of Canada.

Dr. John T. Croteau, formerly of Prince Edward Island and now on the staff of the University of Notre Dame, has summarized the operation of a credit union from which we quote:

The past years have seen the rise of a novel institution of personal finance, the credit union. The needs which this institution is designed to satisfy are as old as history and have been of concern to all societies from the time of the Old Testament. Expressed positively, the credit union seeks to establish agencies of thrift and of personal credit for the middle and the lower income groups; negatively, it seeks to combat the exactions of usurious money-lenders by providing alternative sources of credit to borrowers.

As pointed out in our brief to the Royal Commission on Canada's Economic Prospects, credit unions have the endorsement of leaders, church, government,

business, educators and opinion makers throughout Canada. The Prime Minister of our country Rt. Hon. Louis S. St. Laurent, recently stated:

The credit union movement offers a splendid example of what can be accomplished when determined people work together for their common good, and I am happy to commend the principles of self-help and thrift upon which the credit unions are based to my fellow Canadians.

Mr. G. R. Ball, president of the Bank of Montreal, wrote:

I would like to congratulate your association on the progress it has made—particularly in recent years—and as the association's bankers, we are glad to be linked, in some degree, with the excellent work you are doing. There is no doubt that the credit union is performing a most useful function in the Canadian economy and I would like to convey my best wishes for your continued progress.

President of one of Canada's steel companies stated:

Our company and our management gives 100 per cent support to our credit union as we realize the important part it plays in our way of life.

It may be said credit unions are entirely unique in their purpose, outlook and operation. Many other financial institutions are unable, nor should they be expected, to offer the same kind of service a credit union provides for its members. Owned and operated by the members for their mutual benefit, credit unions can afford to take a personal individualized approach. Their primary goal is to help each other put basic thrift principles to work in daily life. It is not unusual for credit union officers to spend hours of their spare time helping a member untangle a money management problem even when no question of a loan is involved. It is common practice for credit unions to encourage savings, some so small it would not be economical for banks to handle. We estimate 96 per cent of the money invested in credit unions would not otherwise have found its way into savings accounts.

The credit union has little access to funds other than those belonging to the group of individuals comprising the membership. The purpose in coming before your committee today is to provide information and to express some concern, perhaps, with regard to interest rates charged on personal loans.

The credit union movement believes that in order to encourage the investment of savings by individual members in credit unions it is necessary to provide a reasonable return for the rental of the money so invested.

If the interest rate on personal loans is reduced to the point where the return for the money invested is not sufficient to provide an adequate return to its investors, then the service that could and should be rendered through the accumulation of such investments is and could be greatly reduced.

Credit unions also believe that through a lack of investing funds for the purpose of extending personal loans and credit to Canadian people is a condition from which the only recourse the middle and lower income groups have is the services of unlicensed lenders and the ever present danger of usurious interest rates charged by those interested in a profit rather than rendering a service to the citizens of this country.

Credit unions, in addition, believe that interest rates should be the same. Policy 4 reads as follows:

The Credit Union National Association approves the charging of interest on the basis of 1 per cent per month on unpaid balances on all loans. However, if any lowering of rates should be deemed necessary or advisable, such reduction should be applied on an equitable basis to all members.

Therefore, we believe that if there is to be a lowering of rates, it should be applied on an equitable basis to all borrowers. Thus, the credit unions find it possible to more adequately serve their individual members in the middle and lower income groups.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Crestohl:

Q. Could the witness tell us how does one become a member of a credit union? Can he tell us the procedure that is followed in applying and becoming a member?—A. Credit unions are organized under provincial charters. An applicant must be within the bond of association contained in the charter; he or she applies for membership, and the fee for such admission to a credit union is 25 cents. The application is accepted or rejected by the board of directors who have been selected to operate the credit union by the members at an annual meeting.

Q. Membership is not limited to any one particular group or trade or calling or profession?—A. It depends on the bond of association. For example, a community credit union is open to all residents within that community; certain specific geographic boundaries are set up in the law.

Q. It is not restricted to any one occupation?—A. No. We have them in all walks of life. In Canada there are 2,800 credit unions.

Q. When an application for membership is made does the applicant subscribe to capital stock or capital shares of that organization?—A. It is necessary for the member in applying in most of the provinces of Canada to subscribe for one or more shares. Normally they are valued at \$5 each in order to encourage every person eligible for membership to join. The rate of payment for those shares is as low as 25 cents per week.

Q. Is the capital obtained from the purchase of those shares the capital with which the organization functions and lends?—A. That is right; that is the only source.

Q. And it lends money only to its members?—A. That is right.

Q. In other words, it is a mutual lending society?—A. Well, yes, I think you could call it that.

Q. They provide it themselves and they lend it to themselves?—A. That is right.

Q. The term "union" has no specific connotation other than organization?—A. That is correct.

By Mr. Cameron (Nanaimo):

Q. Is it not true that the members may also deposit funds other than capital shares?—A. Some credit unions also have, in addition to shares which are a permanent investment for the credit union, provision for deposit accounts.

By Mr. Crestohl:

Q. I am only trying to correlate it to see whether there is any line of demarcation between this and other lending societies in the mechanics of lending money. Is there any difference except that it is restricted to members only?—A. Perhaps you could boil it all down to that. I think we should recall that the subject matter of this bill affects the government of Canada and the provinces. Credit unions are provincial in their autonomy.

By Mr. Pallett:

Q. You have an insurance scheme on most credit union loans. Did you hear the discussion this morning on life insurance?—A. Yes, I did.

Q. Is that system not in effect with most credit unions in Canada now?—

A. Of the 2,800 I represent we insure unpaid loan balances for 2,800 of them.

Q. What is the charge? Is there any extra charge?—A. There is no charge. It is included in the 1 per cent per month interest rate.

Q. What do you pay them on deposits?—A. Depositors receive an annual dividend depending on the successful operation of the credit union. The average is perhaps 3 per cent in Canada. Some go higher. On deposits the rates are usually equal to or just a little in excess of the prevailing rates in the community paid by banking institutions on their deposits.

By Mr. Knight:

Q. You mentioned 1 per cent per month; is it not true—I know that it is in the case I am thinking of—but is it not true that a great many of these local organizations in good shape are lending money at only $\frac{1}{2}$ of 1 per cent per month?—A. Many credit unions in Canada follow that practice. The maximum in all the provinces is 1 per cent per month that the credit unions may charge.

Q. How are they by provinces? Some provinces have many more credit unions by population than do others. Could you give us a general breakdown—not necessarily statistics? In what provinces would you say credit unions—of course in the case of the Caisse Populaire it would reveal the province immediately—but have you any breakdown with respect to popularity of credit unions by provinces?—A. The organizational trend in the past two years has been towards more business, government, and industrial credit unions. Consequently Ontario with some 1,200 credit unions has the most organizations by provinces, and then we have British Columbia with 250.

Q. That would not be by population, would it? It is stronger there because the population is greater.—A. Probably that is correct.

By Mr. Fleming:

Q. That would be 1,200 out of 2,800?—A. That is correct.

By Mr. Cameron (Nanaimo):

Q. Could you give us any idea of the number of paid employees that are employed by credit unions? I have in mind the one that I belong to myself and it has two or three fully-paid employees. Is there any sort of ratio in the business with respect to the number of paid employees? You spoke of the unpaid work of the members which I know about.—A. We estimated recently in our survey that with the exception of the Caisse Populaire, the group in Quebec, there are some 85 fully-paid employees in the credit union movement in Canada and perhaps another 250 on a part-time basis. The ratio we generally use is that once an office reaches the \$100,000 mark it becomes difficult to operate a credit union on either a part-time or a voluntary basis.

Q. That figure of 2,800 which you gave us a moment ago—does it include the Caisse Populaire in Quebec or is it only for the nine provinces outside of Quebec?—A. No. We have about 200 credit unions in Quebec mainly situated on the island of Montreal in the business and industrial sections there.

By Mr. Knight:

Q. You have said that it is a fairly inexpensive business to join a credit union. As a matter of fact you put the average fee at something like \$5. Would it be common in your opinion for the ordinary man to invest—if he wanted from time to time to build up a little reserve which he could use from day to day—if he invested \$5 in a membership knowing that he had a loan to make on some day in advance?—A. We hope that he will invest a lot more.

Q. Is there any cheaper way by which he could get money than by belonging to a credit union, that you know of?—A. I know of no cheaper way than through a credit union. I understand that the banks have perhaps a cheaper rate of interest based on the security that you can offer. Credit union loans normally are made on the character of the borrower within the terms or the limits prescribed by the provincial law.

Q. You were saying that the way to get membership is that you make your application which costs you something like 25 cents, and then your application is considered by somebody. Personally I do not know any of my friends who have ever been refused admission to a credit union. Is it usual for people to be turned down?—A. In my long years of experience I have no record of any single Canadian citizen being refused membership in a credit union.

Q. You say no single application has ever been refused to join a credit union?—A. That has been my experience.

Q. So these services are available to everybody if they care to use them?—A. Yes, provided they come within the bond of the association.

Q. There is one other thing. Mr. Crestohl asked you a question and I do not know if you got it clearly, about occupational groups. Is it not usual for an occupational group to start a credit union in their town? You may have a teacher's credit union, or the employees in a certain plant, or of a printing press who might form a credit union and give it a particular name for the people who work at that particular occupation. To all intents and purposes they are the members of that particular institution. Is that common?—A. That is correct, and that is very common.

By Mr. Fleming:

Q. Do any of your unions make small loans to non-members?—A. It is not permitted under the credit union law.

Q. In any of the provinces?—A. In any of the provinces!

By the Chairman:

Q. How big are your loans? What is your maximum?—A. It varies by provinces by the amount of money in the credit union itself. By and large I think the maximum is \$10,000 to an individual borrower, at least that is the maximum of our insurance on any one life.

By Mr. Crestohl:

Q. What you have told us has been a bit of a revelation. It sounds like Utopia. I am afraid you have hedged it up constantly with the language "provided it is within the scope of our charter and regulations". I think the committee would be interested in knowing a little more about this "within the scope of our charter and regulations"; could you tell us for example whether there is any relationship between the member acquiring a loan and the amount of investment that he has made in the credit union?—A. No, there is no relationship.

Q. In other words, you can go out and buy one share for \$5 and then apply for a loan of \$500 and get it?—A. That is right, provided that the application is approved by the committee of his own choice at an annual meeting.

Q. There we have it again "provided"; let us talk about that committee. Are they paid officials or paid staff, or are they volunteers?—A. They are volunteers.

Q. You say they are volunteers; so that your administrative board of directors which approves loans are people who are members of the organization; and they do it as a voluntary service?—A. That is correct.

Q. Then the overhead of the credit union should be very low?—A. That is right.

Q. And that could possibly explain the reason for such a Utopian way of being able to get loan accommodations. Is that correct?—A. Well, there is just enough truth in it to make it a little bit dangerous!

Q. Well, we would like to have a little more explanation.—A. The credit union movement has a basic and fundamental philosophy that extends beyond the cost of operation. We are here for the purpose of making this a better country in which to live through thrift and credit, and our members are inspired normally to serve as officers and directors and as credit supervisory committee members in order to bring that about.

Q. That is what is so really admirable about it. I want to try to correlate it to the regular loan corporations which operate with a substantial overhead and which have to show a margin of profit. Do your members who buy shares—some may buy a \$5 share and acquire the right of membership, and others may buy a \$100 share; do they get any return for the money which they have invested in the way of shares in the credit union?—A. An annual dividend is paid on shares, and interest is paid on deposits.

Q. I thought a member of the committee asked you if you accepted deposits.—A. Yes.

Q. You accept deposits?—A. Yes, we will do that too.

Q. What does "deposit" mean? Am I right that a man may come along and say "I have \$5,000 which I would like you to hold for me"?—A. We would be glad to do it anytime.

Q. I know, and it would be a good public service. I think you would hold it as securely as anybody else; there is no doubt about that. But does he get any return on it? You tell us that he gets an annual dividend?—A. That is correct.

Q. Is that a dividend?

Mr. FLEMING: No, he said that the depositor receives a dividend. It is the member who subscribes the capital who receives the dividend.

The CHAIRMAN: He said the shareholder gets a dividend, and the depositor gets interest paid on his deposits.

By Mr. Crestohl:

Q. What is the rate of interest?—A. It is usually equal to or a percentage above that granted by normal banking institutions in the community. If it is 2 per cent at the bank, it would be 2½ per cent at the credit union.

By Mr. Power (Quebec South):

Q. You said you had 85 permanent employees. Are not your managers paid at your local branches?—A. Sometimes they are paid, but normally not. Most of our credit unions operate on a voluntary basis until they reach a point—the question was asked us—of perhaps \$100,000 in assets, and then we begin to look.

Q. Surely you must have more than 85 if you have 2,800 branches.—A. There is a manager for every one of the 2,800 credit unions. Your question was about the paid employees.

Q. Yes. Presumably out of 2,800 there must be more than 85 branches which have \$100,000 or over?—A. I am speaking now of credit unions. I think when you get to the Caisse Populaire you will find a different picture. That was our estimate for the survey for the committee on Canadian economy. It may have changed a few one way or another since then.

Q. What is your experience with regard to losses on loans?—A. The losses experienced by credit unions generally are lower than those of most financial

institutions with which we are familiar. Our last report indicated 1/10 of 1 per cent on amounts lent during the year's operations, on a 12-month operation.

By Mr. Hamilton (York West):

Q. Continuing the line of questioning: the shareholder gets a dividend, you say, and the maximum rate is one per cent per month, and you pay 3 per cent to the depositors? Have you got figures to show the over-all earnings on the invested capital, the rates generally being paid back by way of dividends?—A. I am sorry, but I do not have an answer to that.

Q. Could you tell us whether your earnings are 5, 6 or 7 per cent of your total capital invested?—A. Perhaps I could attempt to explain it. Credit unions lend money and as interest or income comes in the expenditures for operating the credit union is met; that is the first charge; the next 20 per cent is set aside as a guarantee under the regulations of the various provinces to take care of losses. The balance is generally distributed back to the individual members in the form of dividends on their shares or interest on their deposits, and very often as refunds on the interest they have paid for money they borrowed during the year if the credit union is successful.

My credit union pays 4 per cent dividends on my savings and my shares. A 3 per cent dividend is paid on deposits, if I have any. They repaid 25 per cent of the interest I paid during the last year on the money I borrowed. So the money is all distributed and all that remains at the end of the year is the guaranteed fund required by law and a small balance because you cannot divide it exactly out to the companies what is left.

By Mr. Power (Quebec South):

Q. Have you any idea of the amount of money lent by credit unions last year?—A. I do not have any figures for last year, but for 1954 it was around \$250 million.

Q. To what number of borrowers?—A. I am sorry but I cannot answer that.

By Mr. Fleming:

Q. Following the answer you gave to the chairman's question when you said that the maximum loan allowed was \$10,000, I wonder if you could tell us what is the average loan, and give us some idea within what range of loans the maximum number of loans is actually made?—A. I would say that the average loan to a credit union member in Canada, coming within our scope, is \$350.

Q. That is the average?—A. Yes.

Q. Would you state within what limits the great overwhelming bulk of loans are made? Would it be somewhere between \$250 and \$500, say?—A. I think that would be a fair statement, Mr. Fleming.

By Mr. Enfield:

Q. Mr. Smith, when you said anyone could become a member—and this is to clear my own confusion—you meant, did you, that anyone who falls within an occupation group, or other well defined group for whom there happens to be a credit union organization?—A. That is correct.

Q. So there would be a vast number of Canadians, of course, who could not become members of a credit union?—A. That is correct.

Mr. CRESTOHL: Anybody in Canada can become a member. There is no limit. You do not have to be a member of—

Mr. ENFIELD: Let us get this straight, I just said, and Mr. Smith agreed with me, that you had to belong to an occupation group, or other well defined group.

Mr. CRESTOHL: No, no, I think we should—

Mr. ENFIELD: Yes, just a minute.

The CHAIRMAN: Mr. Smith agreed with that statement.

Mr. ENFIELD: He agreed with my statement. Therefore, unless you do belong to such a group, where a credit union happens to be organized, you cannot become a member of a credit union.

By Mr. Crestohl:

Q. To clarify that, what specifically is meant by a well defined group? You have got to be a member of a well defined group before you can be a member of a credit union. What does that mean?—A. An employee, for example, of the House of Commons here, or in a business—

By Mr. Follwell:

Q. An M.P., for example?—A. We have many dozens of parish credit unions throughout Canada that your parishioners start for that particular church. We have hundreds of community credit unions in well defined areas that radiate from perhaps the center—the town hall for example, anybody in that group can belong.

Mr. CRESTOHL: That I can understand; so anybody living within that town, or within that radius, regardless of what calling, trade, or profession he may have, can become a member of the trade union?

Some Hon. MEMBERS: Credit union.

By Mr. Crestohl:

Q. Of a credit union.—A. That is correct.

Q. Some of my friends would like it to apply to trade unions as well. Now, am I right, Mr. Smith, in assuming that?—A. You are correct. But, I do not think you are correct, however, in assuming that every citizen in Canada may belong to a credit union. There just is not one available to everyone.

Q. That is right; but if there is a credit union in that area where he resides?

By Mr. Fleming:

Q. A community credit union?—A. A community credit union.

By Mr. Crestohl:

Q. Yes, he can become a member of that.—A. Yes.

Mr. FAIREY: Provided he passes the examination of the selection committee.

By Mr. Crestohl:

Q. I wanted to ask about that, Mr. Smith. The giving of credit you said was decided upon by a committee of volunteers who, I assume, are selected by that particular group. That is a committee of credits or a committee of loans, they would be called?—A. That is correct.

Q. Can you tell the committee here what form of guarantees, if any, that committee requests before they authorize a loan?—A. Are you referring now to the security required for a loan?

Q. That is correct.—A. Certain prescribed laws differ by provinces.

Q. Tell us about some of them? Let us take Ontario.—A. In Ontario here, normally we can make a loan, in a credit union, up to \$400 without security.

Q. Without any security?—A. That is right. Above that must be secured, and the security is spelled out in the law.

Q. Can you illustrate the general types of securities for example?—A. Co-signers of a note, assignment of wages or moneys receivable, and any other type of security that satisfies the committee.

By Mr. Follwell:

Q. Do you take chattel mortgages?—A. We take chattel mortgages.

Q. Do you take property mortgages?—A. In a community that has a real estate firm, they will take first mortgages on real property; that is permitted.

Q. Mr. Smith, you said to become a member you have to purchase at least one share with a value of \$5, and to purchase that share you can pay for it on the instalment basis of 25 cents per what—week, or month?—A. Depending on the period of your income. If you are paid by the week you can pay for it by the week.

Q. Is that set out then by this committee of three who direct the operations?—A. That is a policy that is set by the board of directors of the credit union. They are not concerned with lending policies or organization.

Q. The board of directors of your executive committee of all the credit unions, or of the one?—A. Each individual credit union. I should have said, Mr. Chairman, that each credit union is autonomous.

Q. I see. Well, then, Mr. Smith, it is set out then by the board of directors that I, for instance, could join by committing myself for one share of stock in the amount of \$5, and would pay, if I wished, at a rate of 25 cents, whatever the agreement might be, per week, or per month, and I presume it would not be more than per month anyway, and then when the stock is issued and the member who owns one, or more shares of stock wishes to dispose of his stock and withdraw from the credit union, what happens? Can he sell his stock to anyone he can find that will buy it, or is it the policy of the particular credit union, or of the credit unions to buy capital stock and put it into the treasury and then resell it again?—A. In the first place, Mr. Chairman, I would like to state that there is no such thing as stock involved in credit unions. We use the term "shares" simply to indicate a portion of the member's savings on which a dividend is paid. We do not issue stock. A member receives a pass-book in which is noted his savings for that particular week. When he accumulates \$5 that becomes a share in the credit union automatically. Any other deposits that he makes with the credit union will be entered either in the share account, or on the deposit side, whichever he prefers. His money, all except the initial 25 cents, may be withdrawn at any time the credit union is open for business. Does that answer your question?

Mr. FOLLWELL: Yes, I think that answers it.

The CHAIRMAN: You have no share capital in credit unions?

The WITNESS: No.

By Mr. Follwell:

Q. Then, I understand that if I wish to cease to be a member, if I am a member, all I need to do is to withdraw my money that is on deposit—which can be partly deposit and partly for one share, is that right?—A. It would depend, Mr. Chairman, if you had applied it as security on a loan. In that case we might hesitate.

Q. Tell me how one would go about negotiating a loan in a credit union. You have a manager, who is not paid in most cases, you said?—A. That is right.

Q. You have a board which decides whether or not the applicant is a good risk, or whether you should loan him what he asks, or only part of what he asks; then after they decide to lend a man \$500, or any amount, how do they recover that? Are payments made to the manager?—A. That is right.

Q. Or to the secretary; and they in turn carry out all this business without usually being compensated?—A. That is correct. Many credit unions over a widespread area in a community will have collectors who operate voluntarily, and you may make payments to them.

By Mr. Knight:

Q. Just on that point, and I think it will help you perhaps: Is it not true that in communities where large and successful credit unions are on their feet, in many cases they have an office where there is a full-time employee or employees, and they are actually doing a banking business? They certainly are in the province of Saskatchewan, where you can issue a cheque on your credit union and do your business ordinarily, as if it was an ordinary bank. That is true, is it not?—A. We do not like to admit that a credit union is in the banking business, sir. I will agree with you, sir, that they do operate in that fashion.

Q. If there is a credit union among a group of employees in an aircraft factory, for instance, or in any other industry or factory, then are payments frequently deducted from their pay by the employer?—A. They are.

Q. And that is done, I presume, on the basis of an agreement between the credit union and the employer?—A. That is right.

Q. Then, is it possible that business would be done during working hours, for the credit union, between one employee and another employee, and it probably would not involve any expenses or time to the credit union? They probably would be paid for by the employer, is that right?—A. We do not approve of that, but it does happen. We prefer that the membership own the credit union and operate it. In many industries in Canada management provides time and space for the credit union to function, with no cost to the organization.

By Mr. Enfield:

Q. What about payroll deductions?—A. Payroll deductions usually go along with that type of operation. We do not do it with all industries, but with most we do, in Canada.

Mr. FOLLWELL: Mr. Smith, would you give the committee your views as to the public service value of small loans companies in general, including the credit unions?

Mr. CRESTOHL: I think that is a difficult question to ask this witness, Mr. Chairman.

Mr. FOLLWELL: Oh, I think the witness is quite qualified to give an opinion and I am sure the committee would welcome it.

Mr. FLEMING: Would it be fair for you to tell the witness, Mr. Chairman, that this is not the sort of question he has to answer if he prefers not to.

The CHAIRMAN: He does not have to answer any question.

Mr. CRESTOHL: Intuitively I object—

Mr. FOLLWELL: I do not want to embarrass the witness in any way and I am sure he realizes that, but he is in that field—he is in a good business—and I am sure his organization is operating to the benefit of a great many people, and my question gives him the chance of telling us just how well they are operating for the benefit of a great many people.

Mr. FLEMING: I am not so sure he appreciates the chance you are offering him.

The WITNESS: Mr. Chairman, I would like to say just this: earlier this year I attended before a committee on Agriculture and Colonization and a similar question was asked and I gave a personal answer; and that did not go down too well with our own people. However, if you are asking it personally and if that will appear in the record I would certainly like to make a personal statement.

Mr. FOLLWELL: I will be pleased to hear a personal statement if that meets with the approval of the committee; I am sure it does not need to go on the record if you do not want it in.

Mr. FLEMING: Anything said ought to go on the record.

Mr. FOLLWELL: If that meets with the approval of the committee. If the committee objects, that is their privilege.

Mr. CRESTOHL: I do not think we are interested in off-the-record proceedings.

The CHAIRMAN: Let me put another question to you in this way: would it be desirable that these individual credit unions should be kept to below a certain size? If they go above a certain size they are bound to become involved in salaries, rent payments, printing, office equipment and that type of thing. Is there a point at which they operate most efficiently and cheaply in order to give people the service they provide?

The WITNESS: We would resist any effort, to the best of our ability, to restrict the size of credit unions.

The CHAIRMAN: I do not mean unions in general, but individual unions.

The WITNESS: I believe I speak on behalf of all of them when I say that the primary function is thrift and there should be no limit on thrift in a credit union; for that reason we would resist any attempt to keep us at—

The CHAIRMAN: But they could become very large—would not an individual credit union have to reduce its profits in that case by reason of the fact that it would have to pay full time employees, pay rent for the offices and office accommodation and all that is necessarily involved in a large operation?

The WITNESS: That is not our idea.

Mr. KNIGHT: Might I suggest Mr. Chairman that I do not think you are using the right word when you speak of "profits"; credit unions do not talk of "profits"—

The CHAIRMAN: You can call them by any other name, but they have to make profits in order to survive and pay interest on their deposits and so on.

Mr. FOLLWELL: That leads me to one other question: do the members of the credit unions pay income tax on money received as dividends or interest on their accounts?

The WITNESS: That is right, they must report them.

By Mr. Power (Quebec South):

Q. Is there any limitation on the number of shares an individual may have in a credit union?—A. Some unions have a limit, but we recommend that there should be no limit on amounts which a member of a credit union might wish to save.

Q. Could that not be dangerous? One fellow might take over the whole thing?—A. If he does that it is because the democratic principles of the movement have been lost because of lack of interest on the part of the members in using their rights.

By Mr. Cameron (Nanaimo):

Q. The fact that a man may own more shares does not give him a multiple voice in any decisions?—A. He has one vote.

Mr. POWER (*Quebec South*): And election of the directors is by individual vote, not by the number of shares?

The CHAIRMAN: There are no shares.

Mr. POWER (*Quebec South*): He has been talking about shares.

The CHAIRMAN: He has been using that word but in a legal sense there are none.

Mr. KNIGHT: Would the witness be prepared to say that the correct word is "membership". One member, one vote. That is the principle.

The WITNESS: That is right.

Mr. CRESTOHL: Could you tell us Mr. Smith how large can a credit union grow before it requires paid help—in terms of numbers of members?

The CHAIRMAN: He answered that in terms of money.

Mr. CRESTOHL: In terms of money or members.

The CHAIRMAN: He said that once it gets to a position where its assets exceed \$100,000—and I use the word "assets" not in the literal sense.

By Mr. Crestohl:

Q. But below that there is no paid staff?—A. Sometimes a credit union, being autonomous, will put a man on before that, but we recommend that size.

Q. There is a good deal of bookkeeping to be done, is there not?—A. That is correct.

Q. Is that on a voluntary basis in most of the credit unions?—A. I would say yes.

Q. Are the credit unions open for business during normal business hours?—A. Depending on their locations and the voluntary aspect of it. For instance, a parish credit union might be open only on Sunday morning before Mass or on one night of the week. Credit unions in business, government or industry would be open during business hours.

Q. I am trying to see whether this is not a similar type of organization to that which existed in the province of Quebec some years ago under the Loan Syndicate Act of the province of Quebec—A. I am not familiar with it.

Q. —where a group of 10 people could gather themselves together and constitute themselves a loan syndicate and apply to the provincial authority for a charter to authorize them to carry on business. You have never heard of it?—A. Never.

Q. How long have you been in this business?—A. Twenty-two years.

Q. In Canada?—A. That is right.

Q. And you have never heard of the fact that these loan syndicates in the province of Quebec some 20 years ago kept mushrooming until they eventually reached 2,800 or more—I do not know the exact figure—and ultimately most of them collapsed with severe losses to the members who had money deposited. Have you never heard of that?—A. No I have not.

The CHAIRMAN: Is this a warning, Mr. Crestohl?

Mr. CRESTOHL: No, Mr. Chairman it is not a warning, but if it is the same kind of organization there was a very sad experience in the province of Quebec which, I take it, perhaps may be of interest to the committee.

Mr. KNIGHT: What has it got to do with this anyway?

Mr. CRESTOHL: I wanted to know if it was a similar sort of organization.

Mr. CAMERON (*Nanaimo*): Do you know all about its financial organization?

Mr. CRESTOHL: Not all about it but something; I read it in the newspapers.

Mr. PALLETT: Is there not a witness to be called from the Caisse Populaire who might be able to deal with this?

Mr. CAMERON (*Nanaimo*): Is there a central organization in a position if necessary to supply additional funds to local credit unions if there is any particular emergency?

The WITNESS: The central organization does so in our province.

By Mr. Fairey:

Q. Do they transfer funds from one union to another?—A. They deposit funds in the central organization which are used to assist credit unions who are short of funds.

The CHAIRMAN: What is the function of the Credit Union National Association of which you are the manager?

The WITNESS: Our particular function is in the field of organizing credit unions providing educational services, taking care of the needs of the credit unions in the fields of literature, bookkeeping, supplies, the bonding of officers and life insurance on loans and savings.

The CHAIRMAN: Have you achieved uniform bookkeeping and a uniform record system?

The WITNESS: Yes, we have.

By Mr. Hamilton (York West):

Q. I was interested in the impression that this membership was available to anyone in Canada. Am I correct in this assumption that if there is a community association and you happen to be a member of the community, a parish, for example, you can join but if there is no such general classification where you happen to reside and you are, say, a dog-catcher, you would have to take the initiative and form a group of dog-catchers? Is that the situation which really confronts a person?—A. That is correct, except for the term you used.

Q. All right— —A. I am a dog lover myself and the term "dog-catcher" does not sound too good.

Q. Very well, let us say "members of parliament". If there was a community association you could join, but if there was not a community group someone would have to take the initiative or we could not get credit through your union.—A. That is correct.

Q. And there must be an awful lot of people who are not in an organized group of that kind or who have not had someone take the initiative to form an association.—A. I think, Mr. Chairman, that the honourable Senator when he appears before you will perhaps report that there are some 2½ million fully paid members of credit unions and Caisses Populaires which will give you an idea of the scope of our operations.

By Mr. Cameron (Nanaimo):

Q. Could you tell us what steps are required in forming a credit union? I know that the method varies from province to province, but take any province—Ontario, of British Columbia.—A. In Ontario 20 persons are required to apply to the provincial secretary for a charter. As you say, the procedure varies. In Quebec I believe the number of people is seven; in some other provinces the number is 12.

The CHAIRMAN: One of your tasks is, I presume, to try to fill the vacant places?

The WITNESS: That is right. We will be glad to start one in your neighbourhood.

By Mr. Knight:

Q. We have been told about the purposes for which people usually borrow money from the small loan companies. Could you tell us just what in your opinion are the three or four main purposes for which people in credit unions borrow money?—A. With the change in economic conditions over the years, credit unions have changed, too. In the early days a great many loans were made to rescue citizens or members of credit unions from debt. Today our loans are made for a variety of purposes with the purchase of consumer goods now beginning to play a more important part in our operations. I would think, however, that still very high on the list would be the payment of medical and surgical expenses incurred by families who are members of credit unions.

Q. What about the building of houses? Where does that come in?—A. That field is one in which credit unions cannot participate until they reach a point where they have sufficient funds to set aside. That is because we have considered it unsafe to invest more than 25 per cent of the assets of a credit union in first mortgage loans.

By Mr. Enfield:

Q. What about corporation taxes?—A. We do not pay corporation taxes as long as income is primarily secured through loans to members.

Q. That is nice, eh?

By Mr. Argue:

Q. And put out as dividends?—A. Yes.

Q. And any other company could do the same if they wanted to pay the profits out in a patronage dividends—they would also, then, not be subject to corporation tax.

Mr. ENFIELD: Why do you not let the witness answer. Could you give us the story on corporate taxes?

The WITNESS: The income tax laws provide that a credit union is not subject to tax if its income is derived primarily from loans made to members, in investment in the bonds of Canada and certain other specific security savings.

By The Chairman:

Q. Does all the revenue which you receive from your loans have to be paid in the form of dividends or interest on deposits, or are you allowed to keep some of that as working capital?—A. No. Normally it is paid back to the members. We consider that from a policy operating standpoint, the 20 per cent set aside is sufficient to guarantee the safety of the credit union itself.

Q. And that portion which you set aside is not subject to corporation income tax?—A. No.

Q. Do you have more applications for loans than you are able to make?—A. In certain parts of Canada we do. In the industrial sections of Ontario at the moment the credit unions are in need of money.

Q. You are always short of funds. Is that the answer?

By Mr. Fleming:

Q. I take it that every union operates independently of the others. If one had a shortage of funds to meet requests for loans would it not find another union which perhaps had an excess of money available which would lend

money to the union which had a shortage? Is there much of that going on?—A. Yes. Each credit union may borrow from another, or from a chartered bank or trust company specified in the law, or from a central organization which accepts the surplus funds of those credit unions who have no call for credit.

Q. That is what they can do; but I was asking about the actual operation. What is the extent of lending from one union to another? Do you have any figures at all on that?—A. No; but I could give you an example where my own union has loans in excess of \$100,000 and is capitalized at \$2 million. Now, it is almost a permanent loan to carry all loans.

Q. Was that borrowed from other unions?—A. Borrowed from the central organization in the province.

By Mr. Fairey:

Q. You pay interest on that to the central organization?—A. Yes. It is usually at 4 per cent per annum.

By Mr. Pallett:

Q. How many credit unions are there in the United States?—A. There are about 16,000 in North America; 4,000 in Canada; so there are about 12,000 credit unions in the United States.

By Mr. Follwell:

Q. I think you said, in answer to Mr. Knight, that the credit unions did not always charge 1 per cent per month. Correct me if I am wrong, but you did say that they could charge 1 per cent per month but in many cases they charged less?—A. That is correct.

Q. When you said "many cases", how many would there be and where would they be located—in Ontario, Quebec. How many would there be and what rate would they charge?—A. The rate varies from $\frac{3}{4}$ of 1 per cent to a half. I would like to mention that in Alberta, Saskatchewan and Manitoba the normal rate there would be perhaps $\frac{1}{2}$ of 1 per cent for rural credit unions and 1 per cent for those in the cities and towns. Ontario would be the largest.

Q. What would dispose them to do that?—A. Sometimes it is a desire to offer a service that the average resident in the community may secure from a bank.

Q. To meet competition from the bank?—A. Yes.

Q. There is another thing in which I am interested. In regard to collections, what steps do you take to recover a delinquent account? For instance, have you had any executions? Do you have to seize chattels and sell them?—A. At times that is necessary.

Q. You have had that experience?—A. Yes.

Q. You find probably that people in credit unions are the same as people every place else?—A. I would like to state that more than 98 per cent of our members are basically honest and intend to repay. Sometimes they need a little urging.

Q. Would you indicate to the committee that pay roll deductions do help to get your money in?—A. They do help, that is correct.

By Mr. Crestohl:

Q. Mr. Smith, could you tell us whether these loans are repayable weekly or monthly?—A. Depending on the individual borrower. If he is an employee paid weekly he may want to pay his loan weekly. If he is a farmer he may want to borrow in the spring and pay it back in the fall.

Q. How do you calculate your charges for a loan? Assuming that a man makes a \$500 loan, he would pay you, assuming he was in a credit union, a

charge of 1 per cent per month. If he asked for it for a year, would he then specify that he will repay it monthly if he wanted to repay it monthly.—A. That is correct.

Q. Then it would cost him \$60 to obtain that loan for a year. How much does he receive?—A. That is not quite right.

Q. \$500.—A. Yes.

Q. At 1 per cent per month would be \$60 for the year.

The CHAIRMAN: On decreasing balances?

Mr. FLEMING: Diminishing balances.

By Mr. Crestohl:

Q. Wait a minute. I want to ask this: how do you calculate your charges if he borrows \$500 at 1 per cent per month? He will repay it monthly. How much money does he receive from you at the time that he asks for that loan and you give it to him?—A. \$500.

Q. At the end of the one month he has to repay you $\frac{1}{12}$ of that \$500?—A. That is correct, plus interest at 1 per cent on the unpaid balance which would be \$5.

Q. I see.—A. The cost of a \$500 loan, sir, would be about \$33 in interest through a credit union repaid in regular monthly instalments at 1 per cent per month.

Q. He pays the interest on the unpaid balance?—A. Correct.

By Mr. Follwell:

Q. You have the benefit of payroll deductions in many cases, you have said, and have indicated that you have limited membership, and also that you have no overhead in respect to wages and salaries in most credit unions, and no office expense, and no corporation taxes, no advertising or any other expenses; therefore, do you think that 1 per cent per month under those conditions is a little bit excessive?—A. The function of a credit union, Mr. Chairman, is to educate our citizens in how to handle their own financial affairs. I think we should be very clear that all of the things which the honourable member has mentioned here do not actually apply to a credit union. For example, we do—

Q. I just wanted to give you an opportunity—

Mr. FLEMING: It is another of those opportunities which Mr. Follwell has given you.

The WITNESS: We do have expense in every credit union. Their book-keeping supplies are necessary, and we recommend a 1 per cent interest rate because it does provide some funds to perform an educational function among our credit union members to solve their financial problems first and educate them in handling the financing from then on and set up a thrift program. So, a 1 per cent rate is sufficient, we consider, to do a job in that particular field and it is not, in our opinion, excessive.

By Mr. Cameron (Nanaimo):

Q. Would you say because of the fact that all your borrowers are also members of your association that it really makes very little difference to the member how much of an interest rate is charged to him. If it was 5 per cent per month it would be a return to him later, would it not?—A. No. A portion of it after expenses, the guarantee fund and whatever else is included, would be returned to him.

Q. Yes.—A. I think it would be extremely difficult to make credit union loans at 5 per cent per month.

Q. I think it would, but the point which I wish to make is that the borrowers are also members?—A. Yes.

By Mr. Fairey:

Q. You mentioned that the loans are insured?—A. Yes.

Q. And that the charge for insurance is included in the rate per month?—A. Yes.

Q. What is the insurance?—A. We insure the borrower against death and total or permanent disability. The amount to be paid is the unpaid balance at the time of death or disability, plus delinquent interest on the loan, if it is delinquent, up to a period of six months.

Q. Does the credit union as an organization have a group policy with some outside company?—A. It has a group policy with a company owned and operated by our credit unions in Canada here and throughout North America.

Q. That is an expense then on your organization. The principal which you pay to the central organization, which insures the policy, becomes an expense of the individual credit union?—A. That is correct.

Mr. BENIDICKSON: We had some evidence that on a twelve-month loan for \$300, that the involved expense was \$1.50. How does that relate to your business?

The CHAIRMAN: Fifty cents per one hundred is the rate quoted.

The WITNESS: Our credit unions operate in a slightly different fashion. The premium paid by the credit union on its unpaid loan balance, taken from the monthly statement, is 75 cents per \$1,000 per month, or \$9 per annum. So the cost of insuring a \$300 loan for one month would be something like 25 cents perhaps. That would reduce with the balance.

By Mr. Crestohl:

Q. Who are the shareholders of that insurance company?—A. The Cuna Mutual Insurance Society carries most of it.

Q. Who are the shareholders of that insurance company?—A. The credit unions own it.

Q. The credit unions themselves?—A. Yes.

Q. All the members of the credit unions, the individuals?—A. Let me correct that by saying the policy owners which are mainly credit unions; we do have some individual policy owners too.

Q. When you apply for a licence to carry on insurance I understand that a substantial deposit has to be made with the federal government?—A. Yes.

Q. Where do the funds come from for that deposit?—A. They are accumulated through the operations of the society prior to the registry with Mr. MacGregor which took place in November 1942.

Q. Which society?—A. The Cuna Mutual Insurance Society.

Q. That is a society composed of whom?—A. The policy owners who are credit unions or individual members.

Q. Does that mean that every person who is a member of a credit union anywhere in Canada whose branch is associated with your central organization is a shareholder of that insurance company?—A. In essence, yes. But he has only one vote, as his credit union vote, rather than the individual member.

Q. Then there is a board of directors elected for that insurance company to administer its affairs?—A. Yes.

Q. How is that board elected?—A. By the policy holders.

Q. How many policy holders would you say there are in Canada—4 million?—A. No. We have 2,500 credit unions and I expect perhaps 10,000 individual members. They would each have a vote.

Q. Each of the 10,000 members has a vote for the election of the directors of that insurance company?—A. That is correct.

Q. I take it that is done at a meeting of some kind?—A. At a number of meetings held throughout the country, not a central meeting. It is done at what we term an area meeting. We had one in Ottawa here, and in all parts of Canada.

Q. Would it be easier if we understood it as being that the directors are elected at a convention of representatives of all these credit unions?—A. Yes.

Q. I see. Each credit union elects a delegate to a central conference which takes place at a given time and place and it is at this central conference or convention that the officers, or the directors, of that central association and the insurance corporation are elected. Is that correct?—A. There are two separate corporations, sir. There is an insurance company which is under the laws and the credit union association, both of which have a board.

Q. But you do have a convention periodically, I assume, once a year?—A. Yes.

Q. And it is at this convention that the directors of both the central organizations are elected?—A. Yes.

By Mr. Fleming:

Q. I wanted to get one question in before Mr. Crestohl started on the other point, on the matter of the insurance rates to follow up the comparison of the figure that was given to us by Mr. Smith and the one given this morning by Mr. Dunbar who said that the rate of 50 cents per \$100 per annum is equivalent to a rate of 9 per cent per annum, or 75 cents per \$1,000 per month. Am I right in that? In other words, is the rate which you have quoted the same rate which was quoted by Mr. Dunbar? That is one thing I wanted to clear up.—A. I did not hear Mr. Dunbar's statement; but I can tell you that our rate is 75 cents per \$1,000 per month.

Q. Was not that the statement that we had this morning?

Mr. E. A. DUNBAR: Yes; the rates are just the same. It is a matter of the declining balances on the loans. If you have \$100 outstanding for one month, and if it is a 75-cent rate, the insurance would cost 7 cents for that particular month; or 7½ cents; and for the following month the amount would decline, and for 12 months the total amount would be 50 cents on \$100.

Mr. FLEMING: So if you quoted it at 75 cents, that is on the whole period, and that would work out exactly at this same rate, namely, 50 cents per \$100 per annum is precisely the equivalent of 75 cents per \$1,000 per month.

Mr. DUNBAR: Yes, sir.

Mr. FLEMING: Thank you.

By Mr. Fairey:

Q. This central organization creates quite a profit, and if so, is that profit distributed to the members of the credit unions?—A. That is correct.

By the Chairman:

Q. The individual policy holders are these people who buy life insurance in this corporation?—A. That is correct, and they must be members of the credit union.

Q. As long as they are members of the credit union they can buy life insurance. Are they limited as to size?—A. Depending on their insurability and their age at the time of the application. Our maximum is \$22,500 on any one life.

Q. Do they get a cheaper rate than the normal insurance companies could provide?—A. We think they do, but we are not in the business of an insurance company or in the field of providing credit in competition with any other organization, so we are not concerned with that aspect of it.

By Mr. Follwell:

Q. Would you say that the insurance companies owned by the credit unions are only in business to take care of the coverage for the credit unions?—A. That is correct.

Q. They do not do any outside business whatsoever?—A. None, whatsoever.

Q. You indicated that you borrow money; the individual credit unions borrow money, and you said that your credit union—you mentioned that it was your credit union several times; I do not know whether you care to tell the name of it to the committee.—A. I was formerly employed by the Corporation of the City of Hamilton and a credit union was organized there in 1935 and it is still operating in that particular field and I am still a member of it.

Q. You have been in it then for quite some time?—A. Yes.

Q. You say that they borrow money. What would be the reason for them to borrow money? Do you sometimes have mismanagement in some of the local organizations?—A. If the total demand for loans exceeds the assets in the credit union.

Q. You never just run short of money because it has not been properly looked after or operated efficiently?—A. No.

Q. And you never have?—A. No.

By the Chairman:

Q. What about that 2 per cent you mentioned? You said that 98 per cent of people are honest. What would be your remedy? Just expulsion from the organization?—A. The 2 per cent represents 1/10th of 1 per cent of loss of fair loans by the credit unions.

Q. When people turn out to be pretty sour, what is your remedy? Just expulsion from the organization?—A. No, that would defeat the educational functions of the credit unions. We believe that practically every citizen can be rescued from financial difficulty if given a sympathetic hearing and an opportunity to prove himself.

Q. But you would still have some losses?—A. That is right. There may be people who will leave and disappear but eventually we may collect from the insurance company. Normally we do have some losses.

By Mr. Fairey:

Q. You mentioned in answer to Mr. Follwell about sometimes having a greater demand for loans than you had funds with which to accommodate those demands, so you have to borrow.

Do you not sometimes have the reverse process?—A. That is correct.

Q. What happens in that event?—A. There is a normal channelling from the central organization to investment in the bonds of Canada or its provinces.

Q. Or you may lend money to another sister organization?—A. That is possible too.

Q. Someone asked you a question as to what he might do when he got out of a credit union and you answered it; now I want to ask you this: you may have a local credit union for instance working in my city in the west, and a member of that credit union may decide to change his occupation and to go somewhere else to work, perhaps even come to Ottawa or Montreal to work.

Is he given, without question, his assets in that particular local credit union?—
A. That is correct, unless he has pledged any security for a loan which is still unpaid.

The CHAIRMAN: Are there any further questions?

By Mr. Enfield:

Q. Are all the policies and the actuarial work of drawing them up and the actual insurance work done on a voluntary basis?—A. No, that is done by a separate organization. The insurance company has 35 employees in the Hamilton office who operate that organization.

By Mr. Follwell:

Q. What is the capital of that insurance company at the present time?—
A. Our capital—if we may call it that—is by and large invested in reserves, and all the money we have in Canada is with the receiver general in trust or in trust for him; the amount is established by our annual operations in the insurance industry and is governed by the superintendent of insurance here. We just about operate on a basis of having sufficient reserves to guarantee the policies, and to pay the policy holders on demand.

Q. To whom do you pay the dividends from the insurance company?—
A. To the policy owners, the credit unions, and the individual people who participate.

Q. How long have you been operating?—A. The insurance company was organized in 1935. It began operations in Canada by mail in 1937 and came under dominion registry in 1942.

Q. Have you been declaring dividends since that time?—A. Yes, with the exception of two or three years.

Q. And your operation has been quite successful?—A. Yes, we think that it has been.

Q. You said one thing which I did not understand. You said to Mr. Hunter when he asked you about it that eventually one might get it from the insurance company. You mean when the man dies?—A. If he dies prior to the age of 70, the company will pay to the credit union the amount of his unpaid loan balance regardless of his delinquency.

Q. If a man 40 years of age has a loan and does not pay it back, and then he dies at 69 years of age, you can still collect from the insurance company?—
A. If the premium has been paid on the amount during that period, yes.

Q. You mean if it has been paid from the time he was 40 years of age until he was 69 years of age?—A. That is right.

Q. You have to keep on paying it?—A. Yes.

By Mr. Enfield:

Q. That insurance does not merely cover the losses; you would be expecting obligations under the policies in the normal course?—A. Yes, just like any other insurance company.

By Mr. Crestohl:

Q. Does everybody who becomes a shareholder and a member and buys a share for \$5 decide also to become a policyholder?—A. Not as an individual, no. The credit union is the policy owner.

Q. When you speak of policyholder you are speaking of those 2,800 credit unions? They are the policyholders?—A. In addition to that, we have individual policyholders.

Q. How does the individual become a policyholder?—A. Through his membership in the credit union; he may apply to the insurance company for protection on his own just like any other normal organization.

Q. In the same way as he applies to be a member of the credit union, and afterwards possibly to become a policyholder of the insurance company?—A. That is right.

The CHAIRMAN: That is not so automatic!

By Mr. Crestohl:

Q. I thought it was; in other words, he also pays for a share or membership in the insurance company as he does in the credit union.—A. No, it is like the normal bringing in of any insurer, if he applies for insurance.

Q. If he takes out a policy he becomes a policy holder?—A. That is correct.

By Mr. Follwell:

Q. You have all types of life insurance for the members of your credit organization?—A. Not all types; we are restricted to pure insurance as we call it; we do not have all types of insurance such as straight loans, terms, and mortgage insurance. Those are the three fields in which we do not function. That would conflict with the savings program in the credit union in our opinion.

By Mr. Hamilton (York West):

Q. I was interested in an interjection after one of Mr. Follwell's questions. He asked if you thought one per cent was excessive, and the interjection was to the effect that what difference would it make, because it all goes back anyway. It does not go back necessarily to the same person, that is, to the borrower?—A. That is correct.

Q. In other words, if I am a subscriber for \$5 and a borrower, and if I find the rate excessive, when the money was going back to someone who had invested \$5,000 or as a depositor for \$5,000, then he would be the person who would get back the return on the money, would he not?—A. That is right; that is the rental for his investment in the credit union.

The CHAIRMAN: This idea that it is a matter of the interest rate that you charge is entirely fallacious!

By Mr. Bell:

Q. Do you know, roughly, what percentage of your business comes from communities which do not have banks or banking service?—A. I am sorry but I cannot answer you.

Q. You would not know whether it was 10 per cent or 25 per cent?—A. It would vary by provinces. I know that in Saskatchewan many credit unions were organized when the banks moved out. I think that is a fair statement.

By Mr. Crestohl:

Q. Mr. Chairman, I have one more question, if I might. The central office renders some services to each of the individual credit union members in outlying—spread throughout Canada, is that correct?—A. That is correct.

Q. Do these credit unions have any fee for the services which the central office renders to them?—A. They do.

Q. How is that fee established, and to what extent; and what is the basis for it; and can you give us an idea in dollars and cents?—A. The total income from dues paid to the Credit Union National Association of Canada amounts to about \$35,000 per annum. That is paid on an assessment basis. Each individual credit union member—his credit union is assessed. If we had 100 members, their assessment will perhaps be \$5, and it comes to the—

Q. That comes to the central office?—A. Yes.

Q. And what kind of services do you render, then?—A. The services are, we think, quite extensive. They range from the field of legislative effort, by provinces, and also federal, and in the field of education. We operate our own supply business for credit unions, and standardize their bookkeeping methods. We provide them with casualty insurance in the form of bonding for their various officers who handle funds, messenger and other hazards—hold-ups, robberies, etcetera. There is an additional premium paid for that service, in addition to the dues, but our operations are mainly in building up credit union; both organizing new ones and assisting those that are already operating and get into difficulties.

Q. Can you tell the committee approximately what was your revenue from all these credit unions, say for the year 1955?

Mr. CAMERON (Nanaimo): He said \$35,000.

The WITNESS: \$35,000.

By Mr. Crestohl:

Q. \$35,000, I beg your pardon. That was the figure you said was your total revenue from all your unions?—A. In Canada, that is right.

The CHAIRMAN: Any further questions gentlemen?

By Mr. Knight:

Q. Mr. Smith, Mr. Follwell asked you a question—he said that in view of certain fees, or salaries that you did not have to pay, he asked you if you did not think one per cent per month would be high under certain conditions to charge these people. I am going to ask you this question: is it not a fact that the interest rate in each case is simply set by the cost of the operation? In other words, you are operating at cost? Is that not the principle of the whole thing?—A. I do not think that is a correct statement.

The CHAIRMAN: They are not operating at cost, that is obvious.

By Mr. Argue:

Q. You have no equity capital in your credit unions in the same sense as you have equity capital in the normal corporation, do you?—A. We have only savings, and I had better use that term, because it is confusing, perhaps, to refer to them as shares. Our equity or our capital in credit unions is the savings of each individual member.

Q. If I were to get a return on any business I do with the credit union, or on any deposit, or on any share, is it not correct that there are only two ways that I can get any return: one is to be paid a nominal, or regular interest rate on a deposit that I might have, or a share—when I say “nominal” I am thinking of two or three per cent, I do not know what the general pattern is—or a patronage dividend on the business I had done as a borrower?—A. That is correct.

Q. So that within that type of definition you do not have profits in the ordinary sense of the word, or in the sense that other companies have profits? The purpose of a credit union is not to make a profit for those who have invested, but, rather to give service to the members?

Mr. ENFIELD: Nothing so vulgar as a profit.

The WITNESS: It may be stated that a credit union is a non-profit organization.

Mr. FOLLWELL: A non-profit organization that makes a return on capital invested and on deposits.

Mr. ARGUE: Is it not correct that federal law, our Canadian federal law, says that if the credit union, or a cooperative is not to pay corporation tax, then it must pay interest on its share capital to the owners of the share capital?

The CHAIRMAN: There is no share capital.

Mr. ENFIELD: There is no share capital.

Mr. ARGUE: Or on the deposits? I can show you my credit union book which shows I have got shares in it, share capital.

By Mr. Crestohl:

Q. You would be contradicting your witness, then?—A. Mr. Chairman, I do not agree that there is any compulsion. There is no requirement that credit unions pay either a dividend or interest. It is an agreement made by the board of directors with the individual member at the time that a deposit is made. The credit union board will determine and they will pay an interest rate on deposits of three per cent. They will pay dividends on the permanent savings in the credit union, if the credit union operates and is able to pay such a dividend.

Q. On the assumption, Mr. Smith, that the credit union pays no interest on its deposits, and paid no interest whatsoever on its share capital, is it not a fact that the credit union, or the cooperative would be charged corporation tax up to the amount of three per cent on deposits and capital?—A. It would probably work out that way. I think you are right in that. I am not familiar enough with the—

Mr. ENFIELD: That is sort of confusing the situation. We have been told all the way through that there is no share capital. You have been here; you have heard the witness.

The CHAIRMAN: There is no share capital, it is just a long-term deposit that they call a permanent deposit.

Mr. ARGUE: What I was saying was that we had, about 10 years ago, a long debate over a long period of time about the question of taxation of co-operatives of all kinds, and if I remember the law correctly, it is as I have now defined it.

Mr. ENFIELD: You should get together with Mr. Smith and straighten it out.

Mr. ARGUE: He agreed with me.

The CHAIRMAN: Not with enthusiasm. Are there any questions, gentlemen? If not, we will get on to the next witness.

Thank you very much Mr. Smith. It has been a revelation to hear about credit unions.

The WITNESS: I am glad to be here. Thank you very much.

The CHAIRMAN: I believe the first witness from the Niagara Finance Company is to be Mr. W. T. McGrew, president and general manager.

Mr. Smith says he has a correction he would like to make in something he has said.

The WITNESS: It concerns the insurance on the life of a borrower. Mr. MacGregor has just drawn to my attention that I erred in respect to the premium rate. The rate for death insurance on the unpaid balance of the loan, on the life of a credit union member, is 55 cents per \$1,000 per month. The rate, including total permanent disability, is 65 cents per \$1,000, per month.

Mr. FLEMING: That is to correct the figure of 75 cents you gave us?

The WITNESS: That is right.

Mr. FOLLWELL: Does that mean, then, Mr. Smith, having your own company you can write insurance a little cheaper probably than someone else?

The WITNESS: I am not familiar with the rates charged by other companies, but we are able to operate and pay dividends, and use the rates I have just quoted.

By Mr. Fleming:

Q. How long has that rate been in effect?—A. Since the first of January.

Q. Of this year?—A. Of 1955.

Q. What was the rate prior to that time?—A. It was 65 cents and 75 cents.

Q. And you dropped it 10 cents in each case a year and a half ago?—A. That is right.

Q. How long had the 65-cent and the 75-cent rates been in effect prior to January 1st, 1955?—A. I think that goes back to the time of our registry here, which would be 1942.

Q. And the reason for dropping the rate was that you found you could operate satisfactorily at a lower rate and still meet your obligations, and have some dividends for distribution?—A. Yes.

The CHAIRMAN: Gentlemen, if you all have a copy of the brief, I suggest we get on with it. There are only fifteen minutes left before we adjourn until the evening meeting. Perhaps Mr. McGrew, you could introduce yourself to the audience and the members of the committee.

Mr. W. T. McGrew, President and General Manager, Niagara Finance Company Limited, called:

The WITNESS: My name is W. T. McGrew. I live in Montreal now. I am president and general manager of the Niagara Finance Company Limited. I have been in the consumer credit field for 36 years, and the last 29 years in the consumer loan business.

I would like to thank you, Mr. Chairman, and members of the committee, for permitting me to present the viewpoints of the company that employs me.

Before starting on my brief, perhaps you would permit me to say just one word about a figure that was given earlier today concerning the extent of accounts that are covered by life insurance. If I remember correctly, Mr. Dunbar said about 3 per cent of all loans in Canada. I believe, although I have not tabulated the actual figures today, that our company has a total that is about 11 per cent of the total consumer loans outstanding in Canada. Mr. McGregor mentioned six other companies that supplied life insurance. I believe their outstandings added to ours would indicate that perhaps 20 per cent of all loans in Canada are insured. Now, I am speaking of dollar totals, not numerical, and there might be a difference in percentage if you figure on accounts instead of dollars.

I thought you might be interested in knowing that we think the total covered by life insurance is considerably more than 3 per cent.

By Mr. Fleming:

Q. You think it is 20 per cent?—A. Dollarwise.

Q. Dollarwise, 20 per cent today?—A. Yes, sir. Then, to proceed with my brief:

Niagara Finance Company Limited is a Canadian-owned company and, in fact, is the largest Canadian-owned company carrying on a small loans business.

The position of the Canadian-owned company carrying on business in the small loans field, is different in many respects from that of its American-controlled competitor in Canada. 83.4 per cent of all small loans outstanding with companies licensed under The Small Loans Act in 1955, was with American-owned companies.

Niagara is not a member of the Canadian Consumer Loan Association. This does not mean that there is any divergence of views between that association or its members and Niagara. During the comparatively short period of development of Niagara as the largest Canadian-owned company in the field, the expenses involved while branches with a relatively small volume of business were being developed, made it imperative that Association expenses, related in part to the number of branches in operation, should, like other expenses, be kept to a minimum. These and other reasons which precluded Niagara from forming part of the Association might well now be reviewed.

Niagara was founded in 1927 in Welland, Ontario, by Louis Blake Duff, at one time editor and publisher of the Welland *Tribune* and well known as a speaker and historian. As late as 1946 the operations of the Company were local in character and were carried on from a single office. However, in 1947 other Canadian shareholders invested a substantial amount of capital in the Company and since that time have secured further capital from time to time, for the expansion of its business. It now has 114 offices throughout Canada and, given an opportunity to consolidate its position, feels that it will be able to meet competition on its own terms.

As will be shown in more detail later, Niagara is the only company operating in Canada, which has consistently used progressively reducing rates according to the amount borrowed. It was the present management of Niagara which first introduced into small loans contracts a provision that without additional cost to the borrower, relieved the heirs of the borrower from all liability for the debt in the event of the borrower's death.

At the present time the amount of debt and shareholders' capital used by Niagara is approximately \$34,000,000. This is a large amount of money by Canadian standards, but is comparatively insignificant compared to the equivalent capital of the large American-owned companies.

The submission made to this committee on behalf of the Canadian Consumer Loan Association is related to the small loans industry as a whole in Canada. That industry is dominated at the present time by American-controlled companies, and while Niagara supports most of the conclusions of the submission of the Canadian Consumer Loan Association, Niagara feels that the point of view of the Canadian-owned company is sufficiently different and sufficiently important to warrant a separate submission.

The purpose of this presentation is not to indicate that American-owned companies should not be operating in this field, but rather, to show that, if this industry is needed in Canada, there is likewise the need for strong Canadian-owned companies financed by Canadian capital to be available at all times to meet needs which are peculiarly Canadian. It is intended to show some of the factors peculiar to the Canadian-owned company and some of the requirements to permit the Canadian-owned company to survive in competition with large American-owned or controlled companies.

American-owned companies operating in Canada are in fact just additional branches of large, continent-wide American companies. The magnitude of their operations and their long established techniques of doing business permit them to keep their expenses below those of Canadian companies, however large these Canadian companies may be at the present time. There is no doubt but that a company doing a very large volume of business in the small loans field, can carry on its operations with somewhat less expense per dollar of income earned than can a company doing a smaller volume of business.

The large American-owned companies invest relatively little shareholders' capital in their Canadian subsidiaries and most of the capital required is supplied in the form of loans from the parent company. In the result, their money costs can, to a much greater extent than those of the Canadian companies, be charged as expenses. Granted a relatively uniform margin of profit on the shareholders' capital they have invested in their Canadian subsidiaries, the corporation income tax they would have to pay would be relatively smaller than that of the Canadian companies. The withholding tax on the interest and dividends payable to their parent companies is also small when related to the income taxes payable by Canadian investors in Canadian-owned companies.

Niagara borrows money from Canadian institutions and these institutions limit the amount of borrowings by requirements as to a certain ratio of shareholders' capital to be invested in the company. A not unusual practice of institutional lenders is to limit the amount of borrowings of a company to a sum equal to about $3\frac{1}{2}$ times the equity capital of the company. This proportion of shareholders' capital required to be so invested is, in consequence, proportionately much higher than that so invested by their American-controlled competitors.

It might appear that the Canadian-owned company faces an almost hopeless task in attempting to build up a business in this field in competition with these foreign giants, but experience has shown that this is not necessarily true if Canadians are given a reasonable opportunity to compete while their businesses are being developed.

The experience in a somewhat analogous field to that of the small loans company may be of some interest. In the 1920s and early 1930s the dominant companies in the sales finance field were all American-controlled. The sales finance field is distinguished from the small loans field in that sales finance companies deal with manufacturers and wholesale and retail merchants by discounting or purchasing their commercial paper. The main source of their business comes from automobile manufacturers and merchants who sell to the sales finance company the conditional sale contracts and notes they have acquired from purchasers. In the result, sales finance companies in the ordinary course deal with the manufacturer or merchant, and the small loans companies deal with the consumer.

Shortly after the commencement of the last great war American-controlled sales finance companies, to a great extent, withdrew their resources from Canada and closed a great number of their branches. It was the Canadian-owned companies which attempted to maintain a continuing service for the merchants who were their customers throughout the various parts of the country. When sales of automobiles and other durable goods were curtailed, the capital which those Canadian companies could not use during the period of the war in their regular business, was used to a great extent for the financing of machinery and equipment for plants engaging in the manufacture of war materials and supplies.

At the present time Canadian-owned and managed sales finance companies are among the largest doing business in Canada. They have been able to show that, given an adequate chance to build up their organizations, they can provide for the needs peculiar to their Canadian customers in competition with the largest American-owned companies. Such, it is submitted, would also be the result if Canadian-owned companies in the small loans field could be given a chance to develop.

The need for credit of the kind supplied by the small loans company is more apparent in Canada than perhaps in any other country on this Continent. Due to marked seasonal variations in employment, and to the seasonal needs of many of Canada's greatest industries, such as agriculture, fishing, mining and lumbering, the self-employed and other persons are often in temporary need of funds which might not otherwise be available to them.

As a Canadian company operated by Canadians, perhaps Niagara might be permitted to make a few comments as to the necessity of this type of business in Canada. There are four obvious sources of money for the person needing a small loan. They are:

- (1) the illegal and usurious lender;
- (2) the chartered banks;
- (3) the credit unions;
- (4) the small loans companies.

The illegal and usurious lender may always be some place in the background. When active, he is found mingling with the workers at the factory gates and frequently is one of their number. It was in large part to overcome the activities of people such as this that the small loans legislation was enacted in 1939. They will, however, never completely disappear and, to some extent, the advertising of the companies in the small loans business is required from the point of view of letting the public know that money is available at legal rates.

The chartered banks in Canada are not geared to carry on the small loans business. Certainly, some substantial proportion of small loans are made by chartered banks, but in the ordinary course they are made to persons who have been dealing with these banks, and very frequently the loans made are made upon the endorsement of some person other than the borrower. As was stated by Mr. Atkinson, Chairman of the Canadian Bankers Association, before this committee only two years ago (minutes of proceedings of Banking and Commerce Committee No. 27, p. 1486), the cost of making a small loan is as great as the cost of making a large loan. That statement was obviously made bearing in mind the fact that the loan would be one which the chartered banks would make in the ordinary course of their business to a customer whom they knew, and perhaps with an endorser. When there is added to this, in the case of small loans companies, the cost of investigation of the credit status of the stranger who applies for a loan, and the appraisal of the type of security which would ordinarily not be accepted by a chartered bank, the costs of small loans soar out of proportion to the costs of large loans. Then come the costs of collection on the instalment plan and the additional accounting costs by reason of this type of collection. In the result, the banks could not afford to carry on the small loans business to the full extent required. The chartered banks are geared to be wholesalers of money, not retailers.

The CHAIRMAN: It is 5.30, gentlemen. I suggest we convene again at 8.15 p.m.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we now have a quorum. May we continue with the brief of Niagara Finance Company Limited.

Mr. W. T. McGrew, President and General Manager, Niagara Finance Company Limited, recalled:

The WITNESS: I shall begin practically at the top of page 7 of my brief which reads as follows:

It is, of course, known that the Canadian Bank of Commerce has provided a special department for small loans, where it provides this service at a cost to the borrower of between 10 per cent and 11 per cent, plus an additional charge for life insurance and now, perhaps, a charge for chattel mortgage registration. Mr. McKinnon of that bank, in giving evidence before this committee on April 8th, 1954, pointed out that his bank, in providing this service at that cost, was not allocating to its small loans branch all of the costs which would normally have to be allocated to such a business. Thus, he pointed out, they did not allocate any costs to that branch of their business, for establishing branches or for carrying them forward, but only the actual operational expense. He also said that in many branches one of the regular employees fulfils both the personal loan duties and other duties in the branch, with the result that they were able to reduce greatly the allocation of costs to the personal loan service. Very little was expended on advertising and, in calculating the cost of money, the minimum cost was selected.

Mr. McKinnon also pointed out that by providing this service the Bank acquired many new customers for its other services.

As noted from the 1954 minutes, Vol. 22, p. 1091, Mr. McKinnon said that although chartered banks followed the practice of lending extensively to a large number of individual borrowers, as a general rule such loans were made to people of financial substance or to those who, while having no financial resources of consequence, were known to banks and in the community as responsible people and good credit risks. He stated (Vol. 22, p. 1064) that only 40 per cent of their business was in single name notes, the balance being endorsed notes, but he added (p. 1072) it is a natural human tendency that, if one can borrow money without talking to others outside the home, one would prefer it.

It is this desire for privacy, and a reluctance to ask a friend or relative to guarantee the repayment of a loan, that prevents a great number of persons from ever approaching a chartered bank. It appears to be reasonably clear that if the chartered banks did enter into the small loans business in a whole-hearted way and without the requirement of endorsers, that, even with their lower money costs, they would have to charge almost as high rates as a small loans company, if they wished to operate at a profit.

The credit union is of course a source of funds for those to whom they are available. There is no doubt that within certain groups or communities the credit unions can accommodate small borrowers at very low cost in view of the almost total absence of expense in their case. However, these organizations do not serve the general public in the same sense as the small loans company.

Credit unions are not satisfactory to many borrowers to whom they are available for the same reason as the chartered banks cannot fill their needs. Being associated with relatively small groups of people, persons wishing to borrow from them again feel the lack of privacy, and do not wish to disclose their need for funds to people to whom they are well known. It has been the experience of Niagara, and no doubt that of other companies in the same business, that many persons to whom the facilities of credit unions are available, prefer to come to the small loans company and pay a higher cost.

There remains then only the small loans companies to provide a needed service to persons to whom other sources of credit are not available and at rates approved by law. This was the conclusion reached by this committee following the lengthy investigation in 1938, prior to the enactment of the Small Loans Act in 1939, and there is no doubt that the need for such companies is even greater today with the increase in the industrialization of the country.

No legislation will prevent people from borrowing and, it is respectfully submitted, that in trying to protect the borrower and to preclude excessive charges, care must be taken not to make the business an unprofitable one for the lender, and thus drive the borrowers into the illegal market.

That such a result is both possible and probable is the opinion of most persons who are well-informed concerning the consumer loan industry.

Mr. Leon Henderson, who testified before this committee in 1938 when the Small Loans Act itself was being considered, and whose evidence was considered by the present committee to be of sufficient importance to warrant its being reprinted for the present hearing, was questioned on the matter of reduction of rates. The following is an extract from the record of Mr. Henderson's evidence, as it is reported in Vol. 8 of the minutes of this committee, page 325 (May 15, 1956):—

Mr. MARTIN: In those States where the uniform law prevails, what is the lowest interest rate? $2\frac{1}{4}$ per cent, is it not?

The WITNESS (Mr. Henderson): The lowest operating rate, and I mean by that where there is licensed lending, is about $2\frac{1}{2}$ per cent, except for Wisconsin. Wisconsin has a rate of $2\frac{1}{2}$ per cent on the first \$100, 2 per cent on the second \$100 and 1 per cent on the remainder. 90 per cent of the business is done by one company, and the average rate is 2.28 and 2.30. It is a little bit above $2\frac{1}{4}$ per cent. But pretty generally you can say that any rate below $2\frac{1}{2}$ per cent, under uniform law, gives only a very, very highly specialized loan service.

Mr. MARTIN: Below?

The WITNESS: Yes.

Mr. PLAXTON: Does that invite the loan sharks?

The WITNESS: It does. ...

It appears to be accepted that the federal power to regulate companies in the small loans business flows almost entirely from its power to regulate interest. This is apparent from the text of the Small Loans Act and of the amendments now proposed. Many of the suggestions that have been voiced as to changes advisable in the methods of doing business, cannot be accomplished by regulation confined to the rate of return that will be available to the companies. A well-meaning attempt to change the practices of certain companies, by reducing their profits, may result in the virtual exclusion of the Canadian-owned companies from the business and the creation of an American controlled monopoly.

In this connection we would refer again to the evidence given in 1938 by Leon Henderson, as reported in Vol. 8 of the minutes of this committee. Mr. Henderson said: (See at page 330.)

As far as rates are concerned it (a money lending law) requires that the rate shall be adequate enough so that there will not be a monopoly; so that there will be the possibility of small companies and small loans balances that would leave a service available to small communities.

Should the rates proposed in the present legislation prove to be unprofitable to all companies, the experiment might not be fatal to American-owned companies, which could absorb the loss through their continent-wide organizations during the experimental period. As has been shown here, these American-owned companies enjoy much higher rates in certain of the heavily populated states, where they do a much greater volume of business.

The Canadian-owned company has no other source of business than that arising in this country and no other place to spread its loss. It is possible also that what would mean operating at a loss to the smaller Canadian-owned company might leave some margin of profit to the American-owned companies with their lower costs.

There is one other possible alternative which might permit both the large American companies, and the large Canadian companies to continue in business at the proposed rates and that would be to engage in a campaign to largely increase the amount of their business and thereby reduce their average costs. Such a programme, Niagara suggests, would not fit into the over-all economy of Canada at this time, when the professed wishes of those governing financial matters appears to be that consumer credit should be reduced rather than increased.

The danger which Niagara sees in the proposed legislation is that by fixing a statutory rate at a figure which, on the present basis of costs, would appear to be too low, such a rate might become completely destructive of the Canadian-owned company by reason of increased salary and other administrative costs or increased money costs. The statutory rate remains inflexible in the face of other changing conditions and, experience has shown, is not quickly changed. Money costs in Canada have increased very substantially in recent months, and in fact, there has been a rise in the interest rate of the Bank of Canada since Bill 51 was introduced. In commenting on this latest increase the Honourable W. E. Harris said in the House of Commons that there is such a demand for money in Canada at the moment, that interest rates are rising and are bound to rise. (House of Commons Debates, Vol. 98, No. 71, page 3288, April 26, 1956). This trend has already been reflected in the costs of the Canadian-owned companies. Indications are that the present year will show an up-trend in labour costs and this also would soon be reflected in all of the other costs of Canadian operated companies. In the face of these possibilities, an inflexible rate geared to bring a low return to all companies, and a still lower return to Canadian-owned companies, might be destructive of the Canadian branch of the industry.

There is also the question of a possible increase in the losses that might be suffered by companies by reason of uncollectible accounts. Much has been said about the low loss ratio of the companies in the small loans field. It must be remembered that the statistics as to losses suffered by most companies operating in the Canadian field are only available since 1939 and cover a period of unparalleled prosperity in the history of Canada. Given a period of recession or depression, or a marked drop in employment, an entirely different situation would have to be faced. Here again the inflexible low rate could spell serious trouble for the companies.

An appraisal of the effect of the proposed reduction in rates as set out in the bill under consideration indicates that on Niagara's business for the year 1955, calculated at 1955 money and other costs, the reduction would be such as to provide a return of approximately 6.2 per cent on its shareholders' capital employed at the end of that year. Such a return would be lower than almost any but the most depressed industries in Canada. The latest official figures available regarding Canadian industries are those which were published by the Bank of Canada, in a survey for the year 1954 of 671 Canadian companies. This analysis shows that the average return on net worth of Canadian industries was 11 per cent. These average earnings included the earnings of many companies in industries which were much in excess of the average, because they included textile companies which earned nothing and certain other depressed industries in that year, such as the railways.

It is on this question of reasonable return to its investors that we find the crux of the problem of fixing proper rates.

In seeking funds from Canadian investors Niagara must compete in a common market with all kinds of businesses striving for the use of the same funds. With proper appreciation of the variations in the risk factors in investments in various companies, Niagara, to attract investors must be able to offer a return at least equivalent to that of companies carrying on other forms of business.

In the presentation made on behalf of the Canadian Consumer Loan Association it has been shown that the proper method of relating earnings to capital is to relate them to the total capital employed, both debt and shareholders. Niagara believes that such a method of computing a proper return on capital employed is the only one which can properly relate to the industry as a whole, particularly where some of the larger companies within the industry rely almost entirely on debt capital obtained from their parent companies.

In the case of Niagara, however, as a purely Canadian company, with the necessity of a greater proportion of shareholders' capital in it, the return to shareholders is the standard which will guide Canadian investors in deciding where to place their money. 1954 is now frequently referred to as the year of the recession. It is well known that average earnings in 1955 for Canadian companies were higher than for 1954, although official statistics are not yet available. If, at the rates proposed in this bill, Niagara's earnings on its present capital would be 6.2 per cent as related to the business done in 1955, then it can readily be seen, if the average of all industries in Canada was 11 per cent for 1954 and more for 1955, that Niagara would have little chance of attracting capital in order to continue in competition with its American competitors.

If it is desired that a service should be provided to small borrowers in Canada, and if Canadian-owner companies are to compete in this service with companies controlled by foreign capital, then there must be such a return permitted to these companies as will allow them to attract Canadian capital in competition with other industries seeking such capital, and permit them to grow up in competition with their American competitors.

It may be that in the process, the American controlled company, may make a little more profit than the Canadian-owned company, but such is true in many industries. With the growth of the Canadian company, competition should be able to control the rates to an extent, as Niagara has been able to demonstrate in the field of loans from \$500 to \$1,000.

The most difficult field for a Canadian company to enter is the field of loans up to \$500. In this field the American-owned companies have been so solidly entrenched that it is hard to carry on a profitable business by attracting

customers requiring such amounts. It was in the face of this difficulty that Niagara found itself, to a great extent, in the field of loans between \$500 and \$1,000, and where it was possible to compete by offering lower rates than the American-owned companies were prepared to offer.

Niagara is the only company operating in Canada which has consistently used progressively reducing rates according to the amount borrowed. This has been true over a long period of years. Niagara has, during most of that time, charged 2 per cent per month on loans up to \$500. On loans between \$500 and \$1,000 its rates were such that the borrower paid an amount equivalent to 2 per cent per month for the first \$500 and an amount equivalent to approximately 1.4 per cent on the money between \$500 and \$1,000. Some 8 or 9 years ago Niagara attempted the experiment of charging 1½ per cent on loans below \$500, but, after a period of some 18 months, had to abandon it as it was found that this could not be done at a profit. As a Canadian company serving Canadians, Niagara takes some pride in being able to say that it is the only company which has consistently attempted to provide service to its customers at what it considered to be the lowest possible cost which would provide a reasonable return to investors in Niagara.

Niagara is of the opinion that there should be regulation of the rates on all loans up to \$1,000. It believes that loans above that amount are not of sufficient volume to require regulation at the present time, particularly as a substantial proportion of such loans are in the nature of small business, rather than personal, loans. Indeed a fact that is frequently overlooked is that the small loan is not always made to the wage earner but frequently to the person carrying on a small business, or the self-employed, to whom credit is not otherwise available.

Niagara is of the opinion that an analysis of the small loans business sufficient to provide the required information to fix just rates is not possible in a hearing such as this. Statistical information such as that contained in the report of the superintendent of insurance can, as in the case of other similar reports, lead to conclusions which, although apparently clear, will turn out to be completely wrong. Niagara respectfully submits that what is required is a review of the business by a commissioner, whose report could then be considered by a body such as this committee. Until such a study and report is made, Niagara respectfully submits that too drastic changes in the law should not be made.

An indication of the type of information that should be forthcoming from a complete survey of the business is the cost of making loans, and a report as to whether these costs are in any respect excessive. An analysis of the report of the superintendent of insurance for 1954 concerning American-owned companies would indicate that the average cost of making a loan is such that the income from any loan up to approximately \$235 is not sufficient to meet such average cost. In the case of Niagara, to meet such average cost the amount of the loan would have to be almost \$295. If the average cost of these small loans is such as to exceed the income earned from them, then the deficiency has to be made up from income on the larger loans.

It is all very well to say that the very small borrower should be given low rates, but it is useless to prescribe such low rates as to make that business unprofitable, and to remove a legal market in such business. This might cause a resurgence of the illegal and usurious business which the enactment of the Small Loans Act pretty well destroyed.

It may of course be said that any company whose profits are subject to regulation will cry "blue ruin" if its rates are being reduced. That, to an extent, may be true, but on the other hand it is respectfully submitted that an emotional approach to the question is equally dangerous. If it is felt that a

regulated small loans business is one that is needed in this country, then it is important to see that nothing should be done which would deter Canadian investors from providing this service to Canadians.

It is possible that the rates specified in Bill 51 might have permitted certain companies to carry on business with some profit, but others would probably not be able to do so. The increase in money and other costs even since the introduction of this bill may have rendered the proposed rates too low for any company, however large. Perhaps no two companies have exactly the same situation. Some carry on the preponderant parts of their business in loans under \$500, and some in loans between \$500 and \$1,000. It is the effect of the proposed rates on companies with varying proportions of such loans that requires study. Thus, to the company carrying on business principally in the field of loans of \$500 or less, the changes in the rates may not appear too radical. To those carrying on business principally in amounts between \$500 and \$1,000 the "breaking-point" at which the 2 per cent rate ceases under the proposed legislation may be entirely too drastic. A purely statistical approach to the question is not one which can bring forth an answer that will provide a reasonably fair solution for the whole industry and particularly for that part which is Canadian-owned.

Indications of the dangers of using a purely statistical approach may be found in some of the tables produced before this Committee by the Superintendent of Insurance. In Table 5 the average annual interest rate paid on borrowed money by Niagara for the year 1955 is shown as 4.39 per cent. In fact, Niagara did not pay less than 4½ per cent for any of its borrowed money during the year 1955. The error has been to apply the dollar money cost of Niagara for 1955 to what is termed the "average amount of borrowed money". This "average amount of borrowed money" has apparently been computed by taking the loans outstanding at the beginning and the end of the year and calculating a simple average. This statistical method completely ignores seasonal variations in volume of loans and results in a conclusion which is patently incorrect. Only a study of the actual volume from time to time during the year could give the proper answer.

Again, averages are used in table 6 and table 8 and again, insofar as Niagara is concerned, result in erroneous conclusions. This is probably true also of the figures shown for other companies.

There are certain other aspects of the bill not already mentioned which need some brief comment. The definition of cost of loan in the bill has been amended to include the cost of insurance. As noted above it was the present management of Niagara which first provided to Canadian borrowers life insurance to ensure that the heirs of a borrower would not be burdened with payment of the loan. Niagara has never made any charge for such insurance, such as, for instance, is made by the Canadian Bank of Commerce and certain companies in the small loan business.

If I might digress for one moment, Mr. Chairman and members. I mentioned this afternoon, when I began speaking, that there might be a slight difference in the thinking of the percentage of business covered by life insurance in Canada. During the dinner recess I checked my thinking and figures on that and find that if one is thinking of loans \$500 and lower, something less than 10 per cent are life insured. The figure I gave is still approximately 20 per cent, if you think of all loans up to \$1,500.

Niagara does not know the reasons, if any, for attempting to regulate the question of life insurance, but wishes to respectfully point out that if the right of the Government to legislate flows from its jurisdiction over interest, an attempt to control the purchase of insurance may well be a valid reason for an attack on the power of the Government to legislate in this respect.

Mr. FLEMING: Excuse me, Mr. McGrew. Would you like to change the word "government" where it appears in this paragraph to "parliament"? Government does not legislate,—not yet!

The WITNESS: Thank you.

Mr. FULTON: Mr. Fleming is a great stickler for form.

The WITNESS: One of the results of the legislation insofar as Niagara is concerned might be that Niagara would be obliged to cease giving life insurance coverage without additional charge, in order to cut down its expenses in the face of reduced rates. Would it be proper in such circumstances to say that a borrower, who learns that life insurance is no longer provided, should be precluded from getting it at his own expense? Insurance of this type is not readily available to the individual, and the effect of the legislation may well be to take away a benefit from the borrower.

There is another aspect of the question which is not dealt with in the proposed amendments to the Act, but which, in the light of Niagara's experience with Canadian borrowers, may require some consideration. The act as it presently stands requires that loans be made repayable in approximately equal monthly instalments. There may be an excellent reason for the rule, as to equal monthly instalments in a great number of cases, but the provision of the act does result in undue hardship to many borrowers. The farmer, the fisherman, the lumberman and many other seasonal workers do not get their incomes in each month, and the person in temporary need of funds is very often in such need for reasons which preclude him from making regular monthly payments. It may be that in countries such as the United States, with a different climate, that such provisions in the law are proper. In Canada, where seasonal variations in employment are perhaps more marked than any other country on this continent, some provision should be made to meet needs which are peculiarly Canadian.

The last point on which Niagara believes that some comment is needed is that concerning the use of two terms to designate companies carrying on the business of making small loans. Under the act a company incorporated under its terms is called a "small loans company", while a company otherwise incorporated and licensed under the act is called a "money-lender". There may have been some reason for this at the outset when both the Small Loans Act and the Money-lenders Act were in force. With the repeal of the Money-lenders Act the reason for the use of the two terms would no longer appear to exist. It is therefore respectfully submitted that the same term be applied to all persons licensed to carry of the small loans business. It matters little which term is used.

Niagara therefore respectfully submits that in addition to the recommendations of the Canadian Consumer Loan Association:

(1) That a commissioner should be appointed to make a full investigation and report as to the requirements of both lenders and borrowers in the small loans field;

(2) That the cost of life insurance should not be included in the definition of cost of loan;

(3) That provision should be made in the law that would permit of seasonal payments by borrowers as distinguished from monthly payments;

(4) That all licensed companies in the small loans field be given the same name in the act.

The CHAIRMAN: Any questions gentlemen?

By Mr. Fleming:

Q. I would like to ask one question, Mr. Chairman. On the last sentence appearing on page 20, the recommendations that Niagara makes are described as being an addition to the recommendations of the Canadian Consumer Loan Association. Are we to infer from that that Niagara endorses all the recommendations in the brief of the Consumer Loan Association?—A. Yes. I do realize that we think \$1,000 is a more logical ceiling at this time, and the association thinks \$1,500. We are not miles apart on that. We think \$1,000 is more sensible but we are not fighting about \$1,500.

Q. Your recommendations are not exactly in harmony on that point, though. Are there any others on which you are not putting forward identical views? I am speaking of the recommendations themselves now.—A. No, sir.

By Mr. Henderson:

Q. Sir, on page 18 where you have stated "indications of the dangers of using a purely statistical approach may be found in some of the tables produced before this committee by the Superintendent of Insurance" and you refer to table 5, where Mr. MacGregor has shown, I presume, that your interest rate is shown as 4.39 per cent. You say the fact is that Niagara did not pay less than 4½ per cent for any of this borrowed money during the year 1955, and you proceed to tell the reasons why Mr. MacGregor was in error. I would like to ask you two questions: do you still say that he was in error in his calculations?—A. He must have been, because every note we signed was for 4½ per cent interest or more.

Q. I would like to ask you another question, then: did you ever bring this to the attention of the Superintendent of Insurance, that he was in error in his calculations?—A. No, sir. That table of his we received on the 20th day of June, and we have had no contact with him since then.

Q. One other thing, Mr. Chairman; I would like to hear from the Superintendent of Insurance as to whether he says it is correct, or incorrect—because I do not want to go back over it again, but I would like to know if these calculations are correct, or incorrect—that he produced in table 5.

The CHAIRMAN: Let us find out; he is here. Mr. MacGregor, would you care to answer that?

Mr. MACGREGOR: The data in Table 5 related to borrowed money, and included a column at the extreme right headed "average annual rate paid on borrowed money". I thought it was obvious that the calculation was made using the figures that extend to the left. That, in fact, is how the calculation was made, namely, by simply taking the ratio of the interest on borrowed money to the average amount of borrowed money shown in the other columns. The figures in the right-hand column, like any other statistical figures may be open to criticism. They are intended only as a guide. It is quite true that the volume of borrowed money may fluctuate during the year. We had no data showing the curve of borrowed money, but I did not think that the point was of sufficient importance to draw any attention to it. The rate shown in the column would only be out if there were fairly violent or substantial fluctuations. The rate shown was intended simply as an indication of the average rate paid.

I do not want to be hypercritical, but there is an error on page 18 of the Niagara brief in this respect, where it says, "This 'average amount of borrowed money' has apparently been computed by taking the loans outstanding at the beginning and the end of the year—" I have no doubt at all that Niagara meant to say not "loans outstanding" but, "borrowed money".

The WITNESS: You are quite right.

Mr. MACGREGOR: I quite accept the criticism of the rate shown, but I do not think it is material. I did not attach any significance to it.

Mr. HENDERSON: Mr. MacGregor, you cannot deny that Niagara did not pay less than $4\frac{1}{2}$ per cent for any of their borrowed money?

Mr. MACGREGOR: No, I should not deny that at all, Mr. Henderson.

Mr. HENDERSON: Then there would be—

Mr. FULTON: Perhaps that is the rate on the money borrowed during that year, not on all the borrowed money outstanding.

Mr. HENDERSON: Did not pay—Niagara did not pay less than $4\frac{1}{2}$ per cent for any of its borrowed money during the year 1955. You cannot deny that, then, Mr. MacGregor; is that correct?

Mr. MACGREGOR: No, I should not deny it, no.

Mr. HENDERSON: All right.

By Mr. Fulton:

Q. Does that mean the money you borrowed during 1955, the money that you actually went to the bank and got in 1955?—A. Yes, sir, Mr. Fulton. I must say as I read this, it is one of those things you read many times and until you read it out loud it does not strike you that they were not the right words, and I thought as I read it that we would speak about it and say that we meant our bank loans.

Q. I understand there is not very much difference between you and Mr. MacGregor but, you are saying, if I followed it correctly, for all new borrowings in 1955 you paid not less than $4\frac{1}{2}$ per cent?—A. Correct.

Q. And Mr. MacGregor is saying, if I understand him correctly, that the average of your interest paid on all outstanding borrowings in 1955, including balances carried forward, was 4.39 per cent?—A. Does this help, Mr. Fulton: on the first day of January, 1955, all the money we had borrowed prior to that date was at $4\frac{1}{2}$ per cent; during the year 1955 all notes we signed for money we borrowed was still at $4\frac{1}{2}$ per cent. It was never less than $4\frac{1}{2}$ per cent beginning New Year's Day.

Q. Your average was never less than $4\frac{1}{2}$ per cent?—A. Never less.

By Mr. Follwell:

Q. Did you borrow money, Mr. McGrew at more than $4\frac{1}{2}$ per cent, some of your money?—A. Not during 1955. It was in 1956 the rate went up.

Q. I see.

By Mr. Knight:

Q. Mr. Chairman, on page 8, the last paragraph there is an interesting psychological question there, where the witness has said that people sometimes do not like to borrow from credit unions because when they come back again and wish to borrow from them again they feel the lack of privacy, and do not wish to disclose their need for funds to people to whom they are well known. I do not want to comment on the general principles, although I might say that these people who are reviewing their case are also members of credit unions. But, the point is this, in your collections—and by the way, little has been said in this committee, certainly not since I have been a member of it, as to the methods of collection from these delinquent borrowers—and I have had an opportunity to sit with some of these boys, who are in a pretty desperate state because they had become tangled with the small loans companies and could not see their way out. I wanted to ask you if it is true, and I think perhaps it is, that people dread, for some reason or another, disclosing the fact that they are borrowing money, and perhaps particularly when they are

borrowing from small loans companies. I am thinking of personal cases that I know of who complain that one of the things which they fear is that there might be some of their private business revealed to their employers. In your knowledge, has that psychological dread, which is expressed here been used as a method of collection? That is to say, has it been held over these borrowers, this fear that that has been held over them as a method of collection? I do not like to call it a threat, but I think that is perhaps what it is, the threat of the revelation of the state of their affairs, and the fact that they have been borrowing money—this is particularly true of people who are perhaps handling cash, or who are in the position of that sort of responsibility with a firm. I have some cases of that that I know of personally, and I am just wondering what you would say in that regard.—A. I think it would be unfair to generalize, because when you are dealing with a million cases it is pretty difficult to isolate a few. I might say that in our company's instruction we admonish our men who are talking to customers, never to threaten. It is poor business, it is poor psychology: we do not threaten. There may be an exceptional mistake, which we would regret, but it is not a practice.

Q. It cannot be described as a general practice that people who are collecting, and have exhausted every other method of trying to get this delinquent fellow to pay up, would use that method of threatening, to inform their employers of the fact that they were in pretty deep with the loan company, and that they had better pay up?—A. I certainly would hope not, Mr Knight. We are trying to build a reputable business.

Q. Of course, these one or two cases that I know of presumably would be the exceptional cases, and would be against the instructions of the company?—A. They would be against the instructions of our company.

By Mr. Argue:

Q. On page 15 you list the charges of 2 per cent per month on loans up to \$500, and 1·4 per cent on loans between \$500 and \$1,000. Is that the practice of your company today?—A. Yes.

Q. To what extent would the present bill reduce the gross income of Niagara Finance Company in this field?—A. Just a moment, sir. Our computations show that based on our mix, which is the trade word for the proportion of loans under the various \$100 brackets, it would reduce the charges to borrowers, and this is applied to our 1955 business, re-scaled to what we know are the facts, and that would reduce our rates to borrowers 15·5 per cent, and would reduce net profit for shareholders 48·5 per cent.

By Mr. Fleming:

Q. That is on the present volume of loans?—A. That is actually on our 1955 business.

By Mr. Argue:

Q. In the last two or three years, or the last few years, did you find any change in the general pattern of loans? Did you find a movement towards the larger percentage of business being done in the field in excess of \$500, or in the larger group?—A. I would like to give you the clearest possible answer but, I have to go into a little detail here, and I shall try very hard to answer your question, Mr. Argue. Our company uses an I.B.M. machine accounting system. We have codes for all business \$500 and less, we have other codes for \$501 and up. The minute a customer switches from a \$450 loan to a \$550 loan he falls under an entirely different code. The machine analysis gives us quite different figures. We have seen a noticeable increase in the number of accounts

above \$500, but the average is so slightly increased that we feel it is this movement below and above the \$500 line which shows up in the machine statistics.

Now, secondly, our particular company, as I touched on at one place else in the brief, I pointed out that when Niagara started to become, if I might say so, a fairly sizable nation-wide company, we found the area in which we could best compete was in the larger loan area, which we felt the American companies were not serving fully from a rate standpoint, and we could make an appeal to attract that business. We, therefore, got what might be called a top-heavy proportion of business in the large loan sector. We have since then tried to work ourselves back down to the average or lower sectors. So, for me to say our company's experience is a certain thing might not be typical of the industry.

Q. No, but it is true, is it, that the last few years a larger and larger proportion of your business has been in regard to balances other than small loans? —A. I cannot lay my hands right now on our average figure for balances but, we get every month a figure for the average loan made, and I recall that it has moved, perhaps, from \$390 to \$430, something in that range, in the last four or five years. Less than 10 per cent variation in the last five years.

Q. Would you think it is likely that in the future the demand will be for larger loans, or for smaller loans?—A. I think it would pretty well parallel the gross national product and the average weekly wage.

The CHAIRMAN: It follows inflationary processes, surely?

The WITNESS: I do not think there would be any sudden lunge toward larger loans.

Mr. ARGUE: It seems to me the trend is towards larger loans. It seems to me that it is inevitable, with the increase in the gross national product, and inflation, and other facts that have just been mentioned, and it will slant progressively in line with everything else mentioned.

By Mr. Fleming:

Q. The figures you have mentioned have not even kept pace, as I understand it, with the reduction in the purchasing value of the Canadian dollar. —A. I was trying to explain, Mr. Fleming, that our company kind of started at the top and is working down, so our company's figures may be contrary to the industry.

By Mr. Fulton:

Q. Mr. McCrew, I was interested in one of your statements on page 11. I do not want to rehash it, and I do not want you to cover ground that may have been extensively covered before. If I have missed it I will not pursue it. But you mentioned there, in the third paragraph "—the professed wishes of those governing financial matters appears to be that consumer credit should be reduced rather than increased." You have also mentioned elsewhere, I think just around that page, the effect of the increase in the bank rate as a result of the raising of the interest rates by the Bank of Canada. Now, can you tell us in a little more detail than you have in your brief what effect you find that has on the interest on your borrowed money, and then carry that forward with respect to what would be the effect upon your returns, in the light of the fact that if the bill goes through, the interest rate you can charge will be reduced. —A. I will try and remember all the parts of your question.

Q. Just take the first one first. What is your projection of the effect of the increased cost of borrowing to you,—and Mr. Cameron suggests, and I think perhaps it is a proper question, what is the increase in your cost of borrowing money?—A. That rate which we pay the banks increased one day in April from

4½ to 5 per cent. It was an overnight increase of 11 per cent in the cost of our raw material. We, of course, have commitments with our customers to carry their accounts for 24, 23, 22 months, etcetera, and could not do anything about the income from them; that had been fixed.

Q. Are all your loans, your borrowings, demand notes?—A. Yes, sir.

Q. So you are borrowing on demand, but you are paying out your lendings at a fixed interest rate, is that right?—A. I see one or two bankers here. Yes, that is correct, sir. It might be interesting to describe the situation that we have been confronted with when we speak of the professed wishes of those governing financial matters. I give this as an illustration, if I may. If we think of income as a ceiling, a hard ceiling like there is in a room or a building, and think of expenses as the floor, and the floor is being jacked up all the time as a result of higher costs, printers' costs, higher telephone bills, and higher everything, we are squeezed between the ceiling and the floor, and when one is squeezed in such a press one is usually squeezed out the sides, and as we start to squeeze out the sides, following my little homily, it means a broader volume. But just then we run into the professed wishes of those governing financial matters who say "please do not expand!"

Mr. FLEMING: Who are those to whom you are referring?

By Mr. Fulton:

Q. You told us that in April 1956 your rates on your borrowings went up from 4½ per cent to 5 per cent?—A. Yes sir.

Q. Would you give us the dollar cost to you of that?—A. On \$20 million that would be \$100,000 a year.

Q. What would that be in terms of reduced net to you?—A. After taxes, that takes \$53,000 out of the shareholder's pocket.

Q. After taxes—and you have to pay back your interest to the banks of course.

The CHAIRMAN: I think that is fairly definite!

By Mr. Fulton:

Q. Yes. So your borrowing cost you \$100,000 more; will you relate that for me, please, as an amateur, to the effect of the new proposed interest rates on your loans to borrowers?—A. It will take me a minute or two to find it, Mr. Fulton. Would you mind repeating your question, please?

Q. I was wondering; I know that my question is somewhat imprecise, but would you relate that to the effect on your return of the proposed new interest rate under the bill?—A. Well, perhaps if I say that if the company expects to have a net profit of \$1 million this year after everything is paid, interest, taxes, and so on, we would lose \$53,000; then the returns are brought down to \$947,000; so the drop in profit is from the level of 100 to 94.7.

The CHAIRMAN: No, I do not think you are answering Mr. Fulton's question.

Mr. FLEMING: You are still speaking of the increase because of your borrowing from the bank while Mr. Fulton was asking you about the effect on your net earning position of the application of the rates of interest as proposed by the bill.

Mr. FULTON: In that light?

The CHAIRMAN: Not the interest rate for the bank, but the interest rate under Bill 51. You may have heard of it!

By Mr. Fleming:

Q. Not the interest rate to the bank but the interest rate which you may charge to your borrowers.—A. The drop in our earnings would be 53 per cent and do not confuse that with the fact that the taxes are 47, and the profits are 53, as it works out to 52·84 per cent as our estimate of reduction in our profits under Bill 51 rates, with the higher bank rates.

Q. And that is based on the 1955 volume of business?—A. Yes sir.

By Mr. Fulton:

Q. There has only been one increase to you by the chartered banks?—A. So far.

By Mr. Fleming:

Q. To clarify that second last answer as to the reduction of 52·8 per cent in profits, does it include the loss that you suffered in earnings by reason of the increase in bank interest rate on your borrowing from the bank? How much of the 52·8 is attributable to the reduction in your rates to your borrowers under the bill? How much is attributable to the higher cost of your borrowing from the bank?—A. It would have been 48·45 without a change in the bank rates, and it is now 52·8 with the increased bank rate.

Q. So of this 53% reduction in net profits you are facing, 4 per cent is attributable to increased cost of borrowing from the bank, and the balance to the proposed reduction in this bill?—A. Yes sir.

Q. On your rates to your borrowers?—A. Yes sir.

By Mr. Fulton:

Q. I would like to get one other point clear, relating it back to page 11. You explained there that the indication of those who govern our fiscal policy is that there should be a reduction in the amount of consumer credit. Is that correct?—A. We thought that we were very careful in choosing words that would seem to express the professed wishes; the actual fact is that it is very difficult to get bank lines increased and it has been for several months. There are no increases that I have heard of.

Q. There is a reduction in credit to you?—A. There has been no reduction in credit, but it has been impossible to get our lines revised upwards; that has been our experience for a great many years; as our business has grown and capital increased, we have been able to get our bank lines increased.

Q. I take it then from your earlier statement when we started this line of questioning that your first reaction would be that because you are being squeezed, you have to enlarge your volume of business?—A. We would like to.

Q. But in doing so you feel you might be running counter to the professed wishes of those who govern our fiscal policy?—A. That is correct.

Q. How do you propose to solve the problem?—A. To sweat it out.

Mr. FAIREY: With a change in government!

By Mr. Fleming:

Q. You have aroused my curiosity when you speak of "those who govern financial matters" in that same sentence; to whom do you refer?—A. Well, we talked to the chartered banks and they told use that they heard it rumoured, or that they talked to the Bank of Canada people I presume; and a great many things are included in those conversations. They say we wish you would not ask for any more money for a while.

Q. I wanted to be clear as to whom you refer to; it is existing policy; and on that point you are speaking about the desire for a reduction in consumer credit rather than an increase.

I just received today the statistical summary financial supplement 1955 from the Bank of Canada which shows on page 59 a very interesting table entitled "Consumer Credit Outstanding".

There are estimates here for every quarterly period from the beginning of 1948 to the end of 1955 on charge accounts, instalment credit, which embraces both retail dealers and finance and loan companies, and then cash personal loans, and then the total. This is the one which I showed to the chairman just before the meeting, and it struck me that it would be interesting to have it on the record of the meeting. It shows that everyone of those forms of consumer credit has risen steadily, not always in an unbroken sequence, but over-all there has been a steady rise in all those forms of consumer credit in the period reviewed here, and the total is quite striking.

It started with \$537 million at the beginning of 1948 and it reached a record total of \$2,182,000,000 at the end of 1955 and that trend applies to all of the component elements in the total.

The CHAIRMAN: That is to the end of 1955?

Mr. FLEMING: Yes, to the end of 1955, and it struck me that it might be of interest to have this page reproduced on the record of the meeting tonight or as an appendix, perhaps.

The CHAIRMAN: I think in view of the fact that you have referred to it in the text of the meeting, it would be better to have it appear right after your remarks. Are you suggesting a geometric progression or anything like that?

Mr. FLEMING: No. Some people might think that it was astronomical. But perhaps just for the information of the committee I might mention two or three salient factors in connection with charge accounts. They began in 1948 with \$166 million and moved up to \$374 million at the end of 1955.

The CHAIRMAN: That is in terms of dollars?

Mr. FLEMING: Yes; consumer charge accounts; these are expressed in millions of dollars. Then instalment credit is based on two elements; retail dealers and finance and loan companies; instalment credit for retail dealers moved up from \$81 million at the beginning of 1948 to \$377 million at the end of 1955; and instalment credit through finance and loan companies began at \$52 million at the beginning of 1948 and moved up to \$601 million at the end of 1955; while the total of instalment credit made up those two components started with \$133 million at the beginning of 1948 and ended up with \$978 million at the end of 1955. Cash personal loans began at \$238 million at the beginning of 1948 and ended up with \$830 million at the end of 1955; and as I indicated, the grand total of consumer credit outstanding began in 1948 at \$537 million and ended up at the end of 1955 at \$2,182,000,000.

CONSUMER CREDIT OUTSTANDING*

ESTIMATES OF SELECTED ITEMS

(Millions of Dollars)

	Charge Accounts	Instalment Credit			Cash Personal Loans	Total of Selected Items
		Retail Dealers	Finance and Loan Companies	Total		
	1	2	3		4	
1948—Mar. 31.....	166	81	52	133	238	537
June 30.....	170	92	67	159	251	580
Sept. 30.....	168	99	70	169	255	592
Dec. 31.....	208	127	71	198	263	669
1949—Mar. 31.....	181	115	72	187	264	632
June 30.....	190	127	99	226	282	698
Sept. 30.....	187	135	109	244	292	723
Dec. 31.....	228	161	116	277	302	807
1950—Mar. 31.....	196	145	122	267	310	773
June 30.....	195	158	162	320	340	855
Sept. 30.....	200	174	192	366	367	933
Dec. 31.....	255	199	202	401	378	1,034
1951—Mar. 31.....	239	163	216	379	387	1,005
June 30.....	219	141	224	365	393	977
Sept. 30.....	219	122	215	337	380	936
Dec. 31.....	283	123	186	309	381	973
1952—Mar. 31.....	244	116	176	292	380	916
June 30.....	231	163	265	428	417	1,076
Sept. 30.....	241	192	334	526	435	1,202
Dec. 31.....	309	243	373	616	460	1,385
1953—Mar. 31.....	283	242	426	668	477	1,428
June 30.....	268	247	524	771	525	1,564
Sept. 30.....	269	254	551	805	545	1,619
Dec. 31.....	339	284	520	804	567	1,710
1954—Mar. 31.....	313	278	500	778	576	1,667
June 30.....	300	284	526	810	615	1,725
Sept. 30.....	297	285	532	817	635	1,749
Dec. 31.....	363	322	497	819	661	1,843
1955—Mar. 31.....	301	304	496	800	675	1,776
June 30.....	317	314	559	873	743	1,933
Sept. 30.....	330	334	610	944	779	2,053
Dec. 31.....	374	377	601	978	830	2,182

SOURCES: Dominion Bureau of Statistics, Department of Insurance, Department of Agriculture and Bank of Canada.

* Revised series. Data on retail dealers' charge accounts and instalment credit outstanding are based on a revised series published by D.B.S. Excluded from the above tabulation are the charge accounts and instalment credit of certain categories of dealers whose credit is extended mainly to farmers or other businesses rather than to consumers. Includes Newfoundland commencing June 30, 1949.

1. Consumers' charge accounts receivables outstanding on the books of retail dealers.
2. Consumers' instalment receivables outstanding on the books of retail dealers.
3. Instalment paper held in connection with the financing of retail purchases of consumer goods, largely new and used automobiles. In addition to the paper held by sales finance and acceptance companies as reported in the D.B.S. publication "Sales Financing", these totals include estimates of the instalment paper held by small loan companies and licensed money lenders.
4. Includes estimated personal loans by chartered banks, small loan companies, licensed money lenders and credit unions.

The CHAIRMAN: Thank you. That is quite a valuable contribution which the Bank of Canada has made to our record.

Mr. FLEMING: Perhaps my most valuable contribution to the committee so far is a vicarious one on behalf of the Bank of Canada.

By Mr. Cameron (Nanaimo):

Q. I think you said that you calculated the increase in the bank rate plus the proposed new rate in Bill 51 would reduce your earnings by 58 per cent?—A. No. 52·8 per cent.

Q. I do not want to get you involved in another argument with Mr. MacGregor, but it is in rather striking contrast to his evidence which appears on pages 37 and 38 of his report in the bottom paragraph on page 37 where he deals with loans up to \$500 from which he estimates the income would be reduced by 5 per cent, and he estimates that on those between \$500 and \$1,000 it would be reduced by 24 per cent; and for loans between \$1,000 and \$1,500, it would be about 38 per cent in each case in relation to the assumed charge of 2 per cent per month.

Now I gather from your brief that your company does not charge 2 per cent per month in these particular brackets.—A. That is correct.

Q. Is the position of your company different from this? Is there some explanation to account for that discrepancy?—A. If I understood the paragraph you are referring to—I have not read it over today, but I have read it over before of course—Mr. MacGregor is speaking of the effective reduction of the rate to borrowers, while the question I was answering when I used the figure of 52·8 per cent was the reduction in our net profit to shareholders after all expenses.

Q. This is a reduction in income that Mr. MacGregor is speaking of.—A. The second part of my answer I believe is that the mix of our company is much higher than the companies which Mr. MacGregor is averaging, so again I think you have difficulty with general statistics that can lead you astray. We have a great many big projection charts if you wish to see them, to show the distribution of loans in hundred dollar levels. We have some loans in the area where the rate reduction is based upon Mr. MacGregor's general estimate for the industry.

Q. Mr. MacGregor's estimate is on two specific areas; I do not see that your answer applies whatever the volume is.—A. I cannot give you any better answer than I have, and I think my answer was correct because I checked my figures, which have been rechecked by our auditors, McDonald Currie and Company, before we made up any of this material, and they agreed with us that our net profit would drop 52·8 per cent under Bill 51 with the new bank rate, or 48·5 per cent under Bill 51 at last year's bank rate.

Q. There seems to be a discrepancy in your estimate and that of Mr. MacGregor. I do not know if Mr. MacGregor has any comment to make on it.

Mr. K. R. MACGREGOR: May I, Mr. Chairman?

The references are to two different things. The percentages referred to on page 37 of my notes relate to income, meaning the charges collected from borrowers and assuming they charge 2 per cent per month; while Mr. McGrew's percentage is in reference to net profits. They just relate to two different things.

Mr. CAMERON (Nanaimo): You are referring to gross income.

The CHAIRMAN: Mr. McGrew said that, actually.

Mr. CAMERON (Nanaimo): I did not know if Mr. MacGregor was referring to gross or to net income; it just says "income" here.

By Mr. Enfield:

Q. Mr. MacGregor at page 39 of his brief, points out that some of the large money-lenders, even though they may suffer some reduction in income, are nevertheless associated with acceptance corporations and thereby there are savings through a pooling of expenses. Would you care to comment on

that? Mr. MacGregor seemed to feel that because of this association with your parent acceptance corporation you would still have a reasonable return despite the reductions.—A. I think that our directors and shareholders are going to be awfully mad at me if we have not already taken advantage of all possible savings in that regard.

Q. Therefore you would not attach too much weight to Mr. MacGregor's opinion in that regard?—A. We are always trying to reduce expenses. Nothing has been left in the picture which showed up yesterday; maybe it will show up tomorrow, but I would doubt if it would be worth much.

By Mr. Fleming:

Q. On the point you make about more flexibility in the matter of equalization of repayments by instalments that you deal with at the top of page 20, you are speaking of farmers, fishermen, lumbermen and many other seasonal workers. The fact is that the bulk of your business is done with urban dwellers. What proportion of those who borrow from you would fall in this category of farmers, fishermen, lumbermen and other seasonal workers?—A. I feel very negligent in not having the exact table on that; but it is something we just have not done. I would have to be guessing if I said it was 15 per cent of our customers. I am thinking of our business in the Lethbridge area for example, where in February and March the sugarbeet farmers need money with which to get their season's crop under way; and by the time they have delivered their sugarbeet to the mill in November and wait for a cheque in December, they just do not have too much money.

Q. I follow your point about the sugarbeet workers, but I want to get at the size of this problem.—A. We have other business; to some extent it could be applied to the Chatham area where we have pickle growers and other market gardeners in that area, and with the branches we have in all the provinces, for example, at Grand Falls, Newfoundland, where there is a lot of timber cutting, and in parts of British Columbia where there are various closures in the summertime due to fire hazards; and I think that in our branches scattered over the ten provinces we would have at least 15 per cent of our customers in such categories.

Q. Is that 15 per cent in number and in amount both?—A. Yes sir.

Q. There would be some difficulty, let us say, about introducing such a rule; there would be a danger if you did not have this provision for a uniform amount that unscrupulous people might attempt to cover up excessive charges?—A. Perhaps I might enlarge a little on something we have in mind. We did not try to draft a clause here and we do not have it written out. However, we think it is pretty sound practice and we know that our customers like it, and it is this: we like to have quarterly token payments and we like to have those quarterly token payments aggregate three months' payments, so our quarterly balance would drop as much as if there were three equal monthly payments. Working with this type of person, and at least endeavouring to find the money for substantial quarterly payments, in support of it we will not make a loan to a farmer who is a one-crop farmer. If all he has is sugarbeets, we are not too interested. He should also have hogs or cattle; so that then he has something that is going to market and it will produce money for him perhaps in June or September, then he may get his sugarbeet money in the winter. If a clause could be written so that quarterly payments would be approximately aggregating three months payments, or some such practical thing as that it might straighten it out.

That is the way we are doing it now in our business, in practice, and we have been doing it for a number of years in the area of from \$500 to \$1500. If in Bill 51 we cannot do that for them, it will be quite drastic.

Q. I have one question on page 2, in the first paragraph, where you say that you first introduced into the small loan contract a provision that without additional cost to the borrower relieved the heirs of the borrower from all liability in the event of the borrower's death. Is it a provision of your contract that all liability ceases upon the borrower's death?—A. Under the life insurance, yes sir.

Q. Oh, it is the insurance that makes it possible?—A. I might say that our insurance does not run beyond \$1500, although about 8 per cent of our total business is above \$1500.

Q. I am glad of your explanation about that, because when you read that over there had not been any reference to insurance up to that point in your brief, nor is there any in the paragraph and it struck me as being a rather generous provision to have in the contract.

Now I am to understand that it is the insurance that makes this possible?—A. Yes, sir, and I am sorry that we did not have it there.

By Mr. Bell:

Q. On page 13 you suggest that the main difficulty in fixing a proper rate is perhaps the problem of obtaining Canadian investment money?—A. That is right.

Q. And the competition with other forms of investment; now you are a Canadian company and I was wondering if you could tell us the last time you financed or refinanced, or made an appeal to the public, and as to the rate of return what you would anticipate in the future there? And are you listed on the market separately, and so on?—A. Mr. Bell, we are not listed on any market because we are a wholly owned subsidiary of a company that is listed on the Toronto and Montreal exchanges. But we are not allowed to raise any money through public bonds, as explained the other day. As was explained, licensees cannot sell even preferred stock, much less debentures.

The CHAIRMAN: Section 16, Mr. Bell.

The WITNESS: Therefore all of our funds, other than shareholder's equity, must come from borrowed money from the banks.

Mr. BELL: Of course, if there is no means of the public ever getting at the stocks, I suppose my question is a little premature, but I wonder if the reason why there is not the interest in the loan companies, as you suggest,—the Canadian investors are not coming around,—I was wondering if it is mainly the rate of return, or is it the type of activity or the field that is unattractive? We had Mr. Elliott speaking here last night in detail, and I think you heard him. We are quite interested in the fact that you have a Canadian-owned company. I am only trying to follow along that point. It seems to be unique, the fact that you are even able to survive. We are just wondering how this can be developed, and we are just wondering what the future might offer, and the difficulties you might anticipate.

The CHAIRMAN: Mr. Bell, when you say "we" is that an editorial "we", a royal "we", or what is it?

Mr. FULTON: It is a collective "we".

Mr. BELL: It is the people who are interested in Canadian-owned companies, whoever they may be, and I include myself in that category.

The CHAIRMAN: You are talking about the Canadian population, I see. Carry on; I am sorry.

Mr. FULTON: Do you not think the proceedings of this committee are of general interest?

The CHAIRMAN: I was just trying to define the term "we". I rarely speak in those terms myself, and I just wondered.

Mr. BELL: I do not like to speak about "I" all the time, because it is egotistical and reminds me of some other people around here. I can do it very easily, Mr. Chairman.

The CHAIRMAN: I think the first person would be most appropriate in your case, Mr. Bell.

Mr. BELL: I will forego my modesty and tell the reporter that in every case that I used "we" it should be the pronoun "I".

The CHAIRMAN: Thank you.

Mr. FULTON: Can the witness answer the question?

Mr. BELL: Can we get an answer now?

The WITNESS: Well, I would really like very much to see our company of a stature, in a financial position, and borrowing money under a law, and at a rate of profit, that would permit us to be listed so that there could be public ownership and participation and interest in this business. I think it would be a very good thing for the industry. I believe that the Household Finance and the Beneficial Corporation are listed on the American exchanges. I do not know how many thousands of shareholders they have. The gentlemen that are here representing them could tell you. But it must be thousands of shareholders. I think it has been a good thing in promoting an understanding of the small loans business. If I may throw this in here, it has been 17 years since the small loans business has had any kind of a review in Canada, and that is too long. Annual reports to shareholders and information of that kind, of material, published in the newspapers, about the operations of the companies, would be all to the good.

By Mr. Follwell:

Q. Mr. Chairman, Mr. McGrew indicated by his remarks dealing with the farming population that he apparently knows something about farming and he knows that farmers have to have more than one crop, at least they have to be diversified, particularly in Ontario. You said, Mr. McGrew, and I will ask you this, you apparently do a considerable business with the farmers in the lending field?—A. Yes, sir, and the percentage I quoted of 15 per cent, approximately, would include the fishermen and lumbermen.

Q. It has been indicated here in this committee that farmers would not need to get the services of the small loan companies because we have what might be termed by some, very adequate legislation to take care of the farmers who would be permitted to secure loans at a more reasonable rate of interest. Can you tell me why farmers still deal with your company when they have access to other sources of borrowing?—A. We are not sure, of course, when they come to us whether they do have access to other sources. We assume that if they have, that they do not wish to wait to get the money by going through the processes taken by the other companies, or that the incidental cost connected with some of those loans is so great that they would rather borrow from us. We have been told by customers that incidental costs in connection with arranging many of these loans—the forms you have to fill out, and the fees you have to pay, run the cost up to where they would rather deal with us on a quick, fast service basis and go on about their business, and not waste any more time away from the farm.

Q. I might say that I am gratified to hear you make those remarks, because I have many farmers in my constituency, and would certainly want them to be in a position to be able to borrow on the same basis as their city cousins. Now, also, Mr. McGrew, you said your borrowing was at 4½ per cent now—5 per cent now from the banks. Have you borrowed any money from anyone else besides the banks, or do you borrow from anyone else besides the banks and do you pay any higher rate of interest for it?—A. We borrow money from our parent company.

Q. What company is that?—A. The Industrial Acceptance Corporation Limited, a Canadian company. However, we can never at any time have a total debt to banks, and our parent, in excess of $3\frac{1}{2}$ times our borrowing base, which is defined in borrowing agreements—capital, surplus, and some of the reserves. The rate we pay our parent company is exactly the same as we pay the banks, no more, no less. Was that all your question?

Q. Yes. I have another question, sir.—A. Fine.

Q. Have you any guarantee that in the future you will not have to pay a higher rate of interest to the banks than you are paying now?—A. No, sir, we have no guarantee at all.

Q. And would you receive any notice from the bank other than you have indicated, that one-day notice?—A. That is the way it has always been done in the past, an overnight hoist.

Q. Mr. McGrew, we have heard a great deal about insurance coverage. On page 19 of your brief, in the third paragraph you say this: "One of the results of the legislation in so far as Niagara is concerned might be that Niagara would be obliged to cease giving life insurance coverage without additional charge in order to cut down its expenses in the face of the reduced rates."

Now, I presume what you are saying there is in the face of the reduced rates as set out in the proposed Bill 51?—A. Yes.

Q. Now in the Canadian Consumer Loan brief at page 28, the original recommendations, which you have indicated in your brief here, in your final remarks, which I think Mr. Fleming pointed out on page 20, you have indicated by saying this: "Niagara respectfully submits that in addition to the recommendations of the Canadian Consumer Loan Association:"—give force and effect to the rates recommendation as set out here, which, perhaps I will just read: "We recommend that consideration be given to amending Bill 51 to the following rates: (a) two per cent per month on any part of the unpaid principle balance not exceeding \$500, (b) one and one-half per cent per month on any part of the unpaid principle balance exceeding \$500 but not exceeding \$1,000, and (c) one per cent per month on any remainder of the unpaid principle balance exceeding \$1,000."

Mr. McGrew, if the proposed bill gave the rates to the small loan companies as recommended by the Canadian Consumer Loan Association, would you then be in a position to provide life insurance coverage on the same basis you do now without any extra charge to the borrower?—A. Yes, sir, we would. We would continue to do so as long as we possibly could, but there is always the possibility, and I hate to think of it, that rising costs of every other kind—rents, salaries, stationery, etc., would go up so fast that when we were looking for some way to meet the situation, it might be life insurance that would have to be dropped. Now, I would regret that day.

By Mr. Fairey:

Q. In your brief you state that most of your business is in respect of loans not exceeding \$1,000 but you do encourage any business over \$1,000?—A. Yes.

The CHAIRMAN: Eight per cent, or something, he said.

By Mr. Fairey:

Q. What rate do you charge on loans above \$1,000. It is 1.4 per cent, you say up to \$1,000, on page 15, in the middle of the last paragraph.—A. Mr. Fairey, if I might just re-read the sentence off that page and perhaps emphasize what I wanted to say clearly there:

On loans between \$500 and \$1,000 its rates were such—"I will say "are such". . . . that the borrower paid an amount equivalent to 2 per cent per month for the first \$500 and an amount equivalent to approximately 1.4 per cent on the money between \$500 and \$1,000.

I have lots of charts and graphs here, but I have not any projection of what the equivalent percentage would be on loans, on that part of the loan between \$1,000 and \$1,500. I do know that our composite rate for a \$1,500 loan works out at about 1·6 per cent per month on the declining balance. Now, that embraces of course, the 2 per cent on the first \$500 and the 1·4 per cent in the case of the next \$500 and a lesser per cent on the top \$500, but we have not figured that out. We have so little business we have not figured it out.

Mr. FOLLWELL: That would be what we have heard so much about, the effective rate on the whole loan, 1·6?

The WITNESS: Yes, sir.

The CHAIRMAN: Do I gather the impression, Mr. Enfield, that you would like to ask a question?

Mr. ENFIELD: That is the impression I have been trying to create.

By Mr. Enfield:

Q. Mr. Chairman, it seems to me that the fundamental concern of the people from the loan companies, who have presented these briefs, is that the Canadian companies will certainly have a serious reduction in net earnings and perhaps be forced completely out of business. Now, Mr. McGrew, what do you think are the main disadvantages, and could you say whether the field, even though they are forced out—will that field still be serviced by the larger American owned companies who are in the field, and if so, will the advantages of the lower rate to the Canadian population, that presumably will be charged by these large companies that are left in the field, will that not outweigh the disadvantage of the Canadian companies being left in the field? I think this is the fundamental question, and I would like to get your thoughts on it. —A. I think I covered most of those points in the brief. If I can pick them out page by page, I would be more certain of giving you the exact words.

Q. I do not want you to do that. —A. All right, sir.

Without being facetious, perhaps I might suggest it is not unlike a poker game where you are not very proud of the cards you have, but you do not want to quit until you take another look. The players with the biggest money can stay in the longest. As I suggested before, the American companies can absorb any reduction in profits, or even a loss in the Canadian operation.

A company with a thousand branches in North America, and only 100 branches in Canada has plenty of other branches to absorb the slow going in Canada. The Canadian companies do not have any such relief available. They sink or swim with the prosperity or failure of Canada. That is what I was trying to say in the brief.

I will be glad to go on if I have not answered your question.

Q. I think you have answered the mechanics of it. We feel we know and understand, probably, what will occur. What I wanted to know is: suppose you are forced to go out of business; so what? The people will be serviced by these companies that are left, and at a lower interest, and the Canadian companies will be out?—A. That is right.

Q. Now, what, in your opinion, is the disadvantage of the Canadian companies being out, under those circumstances? Will there be a lessening of service to the public?—A. It has been said by—

Mr. FULTON: Monopoly is government policy; what are you worrying about?

The CHAIRMAN: This is a problem that is very interesting, I think.

Mr. ENFIELD: Yes, this is the important part, so far as I am concerned, of the whole thing, Mr. Chairman. I think perhaps members would do well to address their minds to it.

The CHAIRMAN: Yes, it is an interesting problem. If you are not interested, Mr. Fulton, you might not wish to listen.

Mr. FULTON: I am simply wondering why he did not ask the Minister of Finance this question, instead of Mr. McGrew.

The CHAIRMAN: That is your privilege in the House of Commons, Mr. Fulton; but this is the Committee on Banking and Commerce.

Mr. ENFIELD: I am not as brilliant as Mr. Fulton, but this question does occur to me as being important.

The CHAIRMAN: I would deny that statement, Mr. Enfield. However, carry on.

Mr. FULTON: So would I, Mr. Chairman.

The WITNESS: As I said in the brief, in using the comparison there—the sales finance companies in Canada that stayed in the picture when the going got tough—well, they were here to take care of the Canadian merchants, and to give them service. It is a distinct advantage to have Canadian companies that understand the peculiar requirements of Canadian business, and the wishes of Canadian people; and I think it is a very good thing for Canada to have Canadian companies and not have it all owned elsewhere.

Mr. ARGUE: And lower rates of interest.

The WITNESS: The same reasoning could be extended to shoes, for instance; if something happened to the shoe industry, and no more Canadian shoes were made, you would not go barefooted. They would come from somewhere else. But I do not know that we would like it, just the same. It is also true with the rate of charge to borrowers, and companies would have to become more selective. I would think that the American companies—if they were left in this field alone—would be in an ideal position to be extremely selective, and their service would not be as broad.

Mr. KNIGHT: Do you think, Mr.—

Mr. ENFIELD: May I pursue this question further, Mr. Chairman?

The CHAIRMAN: Yes, I think Mr. Enfield should be permitted to continue. He has been trying to, all evening; give him a chance.

By Mr. Enfield:

Q. I gather from what you say that you feel there will be a lessening in competition, and that will have very serious effects, in your opinion. You say that the larger companies will be more selective in the accounts they service, and you will not have the same volume, or the same desirable business?—A. There will be trends toward monopoly.

Q. And you think that monopoly will be a very disadvantageous thing, that it would have a very disadvantageous effect on the whole business?—A. It does not seem desirable, to me, no.

Q. Well, I am with you on that. I am just trying to define it; because I think it is very important.

The CHAIRMAN: Are there any further questions, gentlemen?

By Mr. Follwell:

Q. Following that up, were you saying to us that there is a possibility that Canadian companies would be forced out of business, and that the American companies might find it unprofitable to stay in business so they might withdraw and leave the market entirely without service?—A. I did not go as far as the last part of your suggestion. I think the American companies have such a large volume of business now, and they would have even a larger volume of business, that by being more selective and giving less

service—right now they are not servicing the area above \$1,000; I think one company goes to \$1,200; but generally speaking they do not serve above \$1,000; so if you bring in a bill running to \$1,500, you will have very little service in the top \$500.

The CHAIRMAN: Are there any further questions? If there are not, it seems to me that we are getting close to 10 o'clock. We will adjourn until tomorrow, following the orders of the day.

Mr. FULTON: Do I understand that Caisses Populaires will be the first in the morning?

The CHAIRMAN: We will continue with this witness.

Mr. FLEMING: I thought we had finished with this witness.

Mr. FOLLWELL: Do you meet tomorrow, Mr. Chairman?

The CHAIRMAN: Yes, we will meet tomorrow morning, tomorrow afternoon and tomorrow evening.

Mr. FLEMING: In fairness to Mr. McGrew, I think it should be pointed out to him that the questioning has been completed—if it has been. Are you asking him to come back tomorrow?

Mr. POWER (*Quebec South*): The chairman asked if there were further questions, and no one answered.

The CHAIRMAN: Are there any further questions you wish to ask of Mr. McGrew?

Some Hon. MEMBERS: No.

The CHAIRMAN: Then, we will carry on with Caisses Populaires tomorrow.

Mr. FLEMING: Caisses Populaires, the Canadian Bank of Commerce and the Canadian Bankers Association?

The CHAIRMAN: Yes.

APPENDIX "A"

EARNINGS, BEFORE INTEREST ON BORROWED MONEY, OF SMALL LOANS COMPANIES AND MONEY-LENDERS
FOR THE YEARS ENDED DECEMBER 31, 1954 AND 1955

ADJUSTED AFTER CALCULATING INCOME EARNED ON LOANS AT 2 PER CENT PER MONTH ON BALANCES UP TO
\$500, 1½ PER CENT PER MONTH ON BALANCES BETWEEN \$500 AND \$1,000, AND 1 PER CENT PER MONTH
ON BALANCES IN EXCESS OF \$1,000

	1954	1955
	\$	\$
INCOME—		
Income earned on small and large loans.....	40,902,559	49,933,792
Income earned on conditional sales agreements and other contracts.....	1,925,111	1,731,460
Other income.....	27,656	43,355
TOTAL INCOME.....	42,855,326	51,708,607
EXPENSES—OTHER THAN INCOME TAXES—		
Advertising.....	1,674,453	1,928,922
Salaries and directors' fees.....	9,091,843	10,069,888
Other expenses.....	6,204,023	8,687,606
Provision for bad and doubtful debts (2).....	1,734,932	2,414,487
TOTAL EXPENSES OTHER THAN INCOME TAXES.....	18,705,251	23,100,903
GROSS EARNINGS.....	24,150,075	28,607,704
INCOME TAXES.....	11,618,778	13,428,835
ADJUSTED EARNINGS (after applicable income taxes but before interest....)	12,531,297	15,178,869
	%	%
ADJUSTED EARNINGS AS A PERCENTAGE OF 1954 OR 1955 EARNINGS.....	94.1	95.1
NET EARNINGS AS A PERCENTAGE OF 107 PER CENT OF AVERAGE OUTSTANDINGS	5.9	5.9

NOTES:

- (1) Included in these figures are those for Household Finance Corporation Limited, a company which makes loans in excess of \$500.
- (2) These figures comprise bad debts written off and net increases in reserves for bad debts, less recoveries of amounts written off.

Dec
Canada: Banking and Commerce
Standing Committee
HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

BILL 51

An Act to amend the Small Loans Act

FRIDAY, AUGUST 3, 1956

WITNESSES:

Messrs. F. W. Nicks, President, The Canadian Bankers' Association; I. A. McPhail, Deputy General Manager, The Canadian Bank of Commerce; Paul Emile Charron, Assistant Secretary, and the Honourable Cyrille Vaillancourt, C.B.E., both of La Federation des Caisses Populaires Desjardins de Quebec; C. M. Cawker, President, Canadian Consumer Loan Association; and K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Gour (<i>Russell</i>)	Pallett
Ashbourne	Hamilton (<i>York West</i>)	Philpott
Batten	Hanna	Power (<i>Quebec South</i>)
Bell	Henderson	Rea
Benidickson	Hollingworth	Regier
Blackmore	Holowach	Robichaud
Cameron (<i>Nanaimo</i>)	Huffman	Rouleau
Carrick	Knight	St. Laurent (<i>Temis-</i> <i>couata</i>)
Crestohl	Low	Thatcher
Deslieries	Lusby	Tucker
Enfield	MacEachen	Viau
Eudes	Macnaughton	Vincent
Fairey	Matheson	Weaver
Fleming	Meunier	White (<i>Hastings-</i> <i>Frontenac</i>)
Follwell	Michener	White (<i>Waterloo South</i>)
Fulton	Monteith	
Gingues	Nickle	

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, August 3, 1956.

Ordered,—That the name of Mr. Lusby be substituted for that of Mr. Balcom on the said committee.

Attest.

LEON J. RAYMOND,

Clerk of the House.

MINUTES OF PROCEEDINGS

FRIDAY, August 3, 1956.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Benidickson, Cameron (*Nanaimo*), Deslieres, Fairey, Fleming, Follwell, Henderson, Hunter, Knight, Monteith, Pallett, Rea, Tucker and Weaver.

In attendance: Messrs. F. W. Nicks, President, The Canadian Bankers' Association; I. A. McPhail, Deputy General Manager, The Canadian Bank of Commerce; Paul Emile Charron, Assistant Secretary, and the Honourable Cyrille Vaillancourt, C.B.E., both of La Federation des Caisses Populaires Desjardins de Quebec; Messrs. C. M. Cawker, President, F. C. Oakes, Vice-president, and H. C. Walker, Counsel, all of Canadian Consumer Loan Association; and other representatives of Small Loans Companies and interested organizations; Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphreys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. Nicks was called and was questioned.

At 11.45 o'clock a.m., the division bell having rung to summon Members to the House, the Committee took recess.

At 12.00 o'clock noon the Committee resumed, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hamilton (*York West*), Henderson, Huffman, Hunter, Knight, Lusby, Matheson, Monteith, Pallett, Rea, Robichaud, Tucker and Weaver.

Mr. Nicks read a statement, copies of which were distributed to members of the Committee, and was further questioned.

Mr. Nicks being still before the Committee, at 1.05 o'clock it adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Batten, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Henderson, Holowach, Huffman, Hunter, Knight, Lusby, Matheson, Monteith, Philpott, Rea, Tucker and Weaver.

In attendance: The same as at the morning sitting.

Mr. Nicks was further questioned and was retired.

Mr. McPhail was called; he was questioned on the experience of The Canadian Bank of Commerce in the small loans field, and was retired. Mr. MacGregor answered questions directed to him.

Mr. Charron was called; he read a brief of La Federation des Caisses Populaires which had earlier been distributed, in English and French, to members of the Committee.

Mr. Charron being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Batten, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieries, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Hanna, Henderson, Holowach, Huffman, Hunter, Knight, Lusby, Matheson, Monteith, Philpott, Rea, Tucker and Weaver.

In attendance: The same as at the afternoon sitting.

The Honourable Cyrille Vaillancourt was called; he addressed the Committee on the aims and functions of La Federation des Caisses Populaires. He and Mr. Charron were questioned and were retired.

The Chairman reminded the Committee that, on July 12th, it had resolved to invite Merchants Finance Limited to appear to explain its operations; subsequently, on July 19th correspondence in the matter had been read to the Committee and had been printed as an appendix to that day's Minutes of Proceedings and Evidence.

The Chairman stated that, due to his illness, the President of Merchants Finance Limited was unable to appear but he had suggested that Mr. Cawker be permitted to make a brief statement on his behalf. The Committee agreeing, Mr. Cawker was again called; he made a statement on the point at issue and was questioned; he was then retired.

The Committee then considered Bill 51, clause by clause.

On subclause (1) of clause 1:

Mr. MacGregor was again called and was questioned regarding the amendment suggested by Mr. Dunbar on August 2nd with respect to the use of life insurance in connection with small loans.

Following debate, Mr. Philpott moved that subclause (1) of clause 1 be deleted.

The motion was resolved in the affirmative on the following division:

Yeas: Messrs. Batten, Benidickson, Crestohl, Deslieries, Enfield, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Holowach, Huffman, Lusby, Monteith, Philpott, Rea, Tucker and Weaver—19;

Nays: Messrs. Argue, Cameron (*Nanaimo*) and Knight—3.

It was agreed that subclauses (2) and (3) of clause 1 be carried and that they be renumbered as subclauses (1) and (2) respectively.

Clause 1 as amended was carried.

On clause 2:

Subsection (1) of the proposed new section 3 of the Act was agreed to.

On subsection (2) of the proposed new section 3 of the Act:

Following debate, Mr. Follwell moved

That subsection (2) of the proposed new section 3 of the Act be amended by adding at the end of paragraph (a) thereof the word "and";

that paragraph (b) thereof be deleted; and

that paragraph (c) thereof be amended by deleting the words "one-half of" in line 37, page 2; and by deleting the words "one thousand" in line 38, page 2, and substituting therefor "three hundred".

The said motion was negatived on the following division:

Yeas: Messrs. Crestohl, Enfield, Fairey, Follwell, Henderson, Huffman and Philpott—7;

Nays: Messrs. Argue, Benidickson, Cameron (*Nanaimo*), Deslieries, Fleming, Fulton, Gour (*Russell*), Hanna, Holowach, Knight, Lusby, Matheson, Monteith, Rea, Tucker and Weaver—16.

Whereupon Mr. Argue moved

That subsection (2) of the proposed new section 3 of the Act be amended by deleting all the words after the word "exceed" in line 31, page 2, and substituting therefor "one per cent per month".

The said motion was negatived on the following division:

Yeas: Messrs. Argue, Cameron (*Nanaimo*), Holowach and Knight—4;

Nays: Messrs. Benidickson, Crestohl, Deslieries, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Hanna, Henderson, Huffman, Lusby, Matheson, Monteith, Philpott, Rea, Tucker and Weaver—19.

Subsection (2) of the proposed new section 3 of the Act was agreed to.

On subsection (3) of the proposed new section 3 of the Act:

On motion of Mr. Follwell,

Resolved,—That, in subsection (3) of the proposed new section 3 of the Act, the word "fifteen" in line 41, page 2, be deleted and "twenty" be substituted therefor.

Subsection (3) of the proposed new section 3 of the Act was carried as amended.

Subsection (4) of the proposed new section 3 of the Act was carried.

Clause 2 was carried as amended.

Clauses 3 and 4 were carried.

The Committee agreed to insert after clause 4 the following new clause as clause 5:

5. Subsection (3) of section 13 of the said Act is repealed and the following substituted therefor:

(3) Paragraph (f) of subsection (1) and paragraph (c) of subsection (2) of section 60, subsection (3) of section 62, paragraph (c) of section 63, sections 65 to 72 and sections 81 to 88 of the *Loan Companies Act* do not apply to the Company,

On motion of Mr. Benidickson,

Resolved,—That clause 5 of the bill be renumbered as clause 6.

On clause 5 (new clause 6):

On motion of Mr. Follwell,

Resolved,—That, in the proposed new subsection (3) of section 14 of the Act, in line 14, page 4, the word "fifteen" be deleted and "twenty" substituted therefor.

Clause 5 (new clause 6) as amended was carried.

Mr. Benidickson suggested an amendment to insert a new clause 7 in the bill. Following debate, during which Messrs. Walker and Cawker made representations to the effect that the proposed amendment be not made to the bill, the Committee agreed that the said proposed new clause stand for further consideration at its next sitting.

Mr. MacGregor was again retired.

At 10.45 o'clock p.m. the Committee adjourned until 11.30 o'clock a.m. on Saturday, August 4, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

FRIDAY, August 3, 1956,
11.30 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. The first witness today will be Mr. F. W. Nicks who is general manager of the Bank of Nova Scotia and president of the Canadian Bankers' Association. It will be recalled that they did not ask to come here. We asked them to come; so I do not know if they have any statement to make at all. They are really here for questioning.

Mr. F. W. Nicks, President, The Canadian Bankers' Association, called:

The WITNESS: Good morning, gentlemen!

The CHAIRMAN: Mr. Nicks has no statement to make. He is really here just for questioning by members of the committee. Are there any questions, gentlemen? I hope you will ask him at least one question, or he will feel pretty thwarted.

By Mr. Fleming:

Q. You are familiar with the testimony that was given to the Banking and Commerce Committee at the 1954 session in relation to the revision of the Bank Act in general and in particular in relation to the subject of small loans both as to the matter of banks participating in small loans and the provisions of the Bank Act in regard to the definition of interest rate, and the effect of the provisions of the act on the rate for banks which participate in the so-called small loans field.

Do the views which were expressed on behalf of the Bankers' Association at that time by Mr. Atkinson represent the views of your organization today?

—A. I think generally so; yes, sir. That particularly refers to the interest rate of 6 per cent. I think, generally speaking, we still hold the same views, sir, as they apply to the making of small loans.

The CHAIRMAN: Gentlemen, the division bell is ringing and I think the Liberal members at least would like to attend in the House of Commons!

Mr. PALLETT: Just for the record, Mr. Chairman, I think all members would like to attend there!

(At this point a recess was taken because of a division in the house.)

(Upon resuming.)

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Nicks is here and available for questioning. Have you some further questions, Mr. Fleming?

Mr. FLEMING: No, I do not think there is any need to repeat what was said in 1954 if the views then expressed on behalf of the association are the same views which the association holds today on the subject under discussion.

By Mr. Cameron (Nanaimo):

Q. Would it be correct to say that in the opinion of your bank the uncertainty, shall we say, about the position with regard to the interest rate is the chief obstacle to your engaging in small personal loans?—A. Perhaps I should say, sir, that we do engage in the small loans business, in my feeling, to a considerable extent.

Q. I mean on the same basis as the Canadian Bank of Commerce.—A. No; any increase from the standpoint of the banks of course is affected by that 6 per cent maximum. Would it be interesting for me to introduce information on those figures relative to small loans?—A. Perhaps it would be a good idea.

The CHAIRMAN: Yes, I think it would.

The WITNESS: I have copies of a statement which may be handed around.

The CHAIRMAN: Yes, copies of the statement will be handed around to the members of the committee.

Mr. FULTON: Is the witness going to read his memorandum?

The CHAIRMAN: Yes.

The WITNESS: The statement we have put together has to do with figures for instalment loans to individuals not secured by stocks and bonds, that were outstanding on the books of all branches of all chartered banks on March 15, 1956. A loan under any arrangement whereby a fixed amount is repaid periodically is considered to be an instalment loan.

It should be explained, this survey was taken by the banks on one day only and there are no comparable figures because a survey of this extent never was made before.

The figures do not include loans made by the personal loans department of The Canadian Bank of Commerce but they do include instalment loans outstanding in the ordinary branches of that bank. In other words, these are loans made by the chartered banks at the maximum rate of 6 per cent as fixed by the Bank Act, or below that rate.

In making this survey, we took the categories set out in Bill 51, that is to say, loans of \$300 and under, over \$300 and up to \$1,000, over \$1,000 and up to \$1,500, and we also took an additional category, over \$1,500 and up to \$3,500.

This survey of all branches of the chartered banks showed that on March 15, 1956, there were outstanding 431,485 instalment loans to individuals not secured by stocks and bonds up to a maximum of \$3,500—what the banks call personal loans. The total outstanding amount of these loans was \$220,124,000.

This breakdown was made on the basis of the original amounts of the loans:—

The number of loans of \$300 and under was 170,169, totalling \$24,397.00;

The number of loans over \$300 and up to \$1,000 was 179,019 totalling \$83,918,000;

The number of loans over \$1,000 and up to \$1,500 was 41,040, totalling \$40,653,000;

The number of loans for \$1,500 and up to \$3,500 was 41,257, totalling \$71,155,000.

If we limit the categories to the suggested schedule of interest rates in Bill 51, that is all personal loans up to \$1,500, we get 390,228 loans, totalling \$148,968,000.

These figures do not reflect the full extent to which banks are engaged in personal lending. I have been referring to instalment loans not secured by stocks and bonds, but that is only one segment of the total lending business to individuals. The statistical summary of the Bank of Canada showed that on March 31, 1956, the total of all bank loans to individuals for other than business purposes secured by marketable stocks and bonds was \$476,800,000 and the total of other loans to individuals for other than business purposes—including home improvement loans—was \$468,300,000. The total of these two categories of loans was \$945,100,000, representing all loans to individuals for other than business purposes. The nearest comparable total, September, 1950, was \$461,600,000.

By Mr. Cameron (Nanaimo):

Q. I presume these loans would be made in the main to individuals who had checking or savings accounts at your branches?—A. They would reflect customers of the bank as well as other people who would come to us for small loans and who are perhaps without a deposit account.

Q. I mean that people who have checking or savings accounts with you—you would know something about them, or your managers would know something about them.—A. Yes, the depositors who are with us, yes, we would have more knowledge of them than we would of individuals who were not depositors; but I do not mean to imply that these loans are made only to individuals who have a deposit account.

Q. Do you have endorsed notes for most of these?—A. No. I might be able to give you a rough estimate, and I would say offhand that endorsed notes would not run to perhaps more than 25 per cent.

I have a breakdown here which has some basis of experience behind it and it suggests that secured loans would probably run 31 per cent of loans made in an amount of less than \$500. Those with endorsed notes would run to a figure of perhaps 25 per cent; those secured by government of Canada bonds would run to 24 per cent; and those otherwise secured would run to 15 per cent.

By Mr. Fleming:

Q. Is the last figure in your statement, \$461,600,000 at September, 1950, to be compared with the figure of \$945,100,000? Is that its comparable figure?—A. Yes.

Q. So that in that period your aggregate has more than doubled on loans to individuals for other than business purposes?—A. Yes.

By Mr. Pallett:

Q. Does the next figure include your mortgage loans?—A. No.

By Mr. Tucker:

Q. Have you the figures referred to in paragraph (b) for the so-called personal loans department loans of the Canadian Bank of Commerce?—A. Have I those figures?

Q. Yes.—A. No, I do not have those figures.

By Mr. Fairey:

Q. Is it the custom of your bank to discount to a customer on a 6 per cent loan?—A. Sometimes, yes.

Q. I mean, if a customer wanted \$100 at 6 per cent, the actual cash he would receive at the time would be only \$94?—A. We discount at the maximum rates of 6 per cent.

Q. The effective rate then would be somewhere between 12 per cent or 13 per cent?—A. Oh no. We are precluded from exacting an effective rate beyond 6 per cent. On a loan of \$100 for 12 months, the discount would be \$3.25.

By Mr. Follwell:

Q. You have indicated that you are precluded from exacting a rate beyond 6 per cent. We have had information—and you know about the operations of the Bank of Commerce better than we do on personal loans; but we have been informed by the Bank of Commerce that they operate a personal loan business at a discount rate of 6 per cent which brings about an effective rate of about 10.46; and I was informed that the Bank of Commerce had a fair

sized business in that respect. Apparently they are getting 10.46. Do you know of any other bank which is operating in the same type of business on the same interest rate?—A. No, I cannot tell you of any other bank.

Q. Can you tell this committee why the other banks do not do it and make such service available to the public?—A. A. We do make a service available to the public but perhaps we are interpreting these regulations differently; I do not know.

By Mr. Fleming:

Q. It is not a regulation; it is a provision of the Bank Act.—A. Yes, that is what I meant.

By Mr. Follwell:

Q. You do not operate the same type of loans that the Bank of Commerce operate; the other banks apparently do not do that?—A. No; that is right.

Q. Is the only reason because you interpret the regulations differently?

Mr. FLEMING: No, the Act!

By Mr. Follwell:

Q. Thank you, I should have said the Act.—A. We have been working on our interpretation and, speaking for the Bank of Nova Scotia, that is our interpretation of the Act. We have been guided by our understanding that the effective rate is 6 per cent. I do not know what more I can add.

Q. Would you think that the matter of attracting 10.46 per cent in the rate of interest as against 6 per cent was gouging the public?—A. I would not have those views; no.

Q. Can you tell this committee if the Bank of Commerce is making loans on the rate which they are charging, which are a little more precarious than the loans which other banks are making? Are they taking a little bigger risk?—A. I am afraid I cannot answer that because I do not know their operation.

The CHAIRMAN: I think that Mr. McPhail would be in a better position to answer some of those questions, Mr. Follwell.

Mr. FOLLWELL: Yes. I am only concerned with the opportunity of borrowing at the most reasonable rates.

By Mr. Follwell:

Q. Under the Bank Act amendment which permitted you to take chattel mortgages, does your bank take chattel mortgages?—A. We have taken some, yes.

Q. Have you had occasion at any time to have a delinquent borrower, when you had to make an execution or a seizure of the chattel?—A. No.

Q. Have any banks?—A. Not to my knowledge. I cannot say with exact certainty; but not to my knowledge.

Q. Could you get us the figures?—A. I could probably make inquiries, but I do not know of anything that has come to my attention to suggest that they have.

By Mr. Tucker:

Q. Following that up Mr. Chairman, since the revision of the Bank Act permitting the banks to take chattel mortgages in order to facilitate their assisting of people who require small loans, have you got any figures indicating what advantage has been taken of that amendment? As I understood it, the Banking and Commerce committee gave you that power in order that you could give these services. My impression was the banks have taken very little

advantage of that power given them to give this service to the small borrower. I wonder if you could give any figures on that?—A. No, I have no figures.

Q. I would think this committee would be very, very interested, because the feeling was that the banks should be—in view of the great powers and rights given to them under their rates—should be prepared actually to give this service to small borrowers. This change in the act was made to enable you to do that on a bigger scale. I think this committee would be very, very interested in knowing to what extent the banks have taken advantage of that power, to do the thing that the Banking and Commerce committee indicated they would like them to do.—A. I am only speaking for the Bank of Nova Scotia but, I do suggest that it was a very good move on the part of this committee. But, since the introduction, and since that authority was given, shall I call it, the Bank of Nova Scotia has not taken advantage of it perhaps as often as we might have under other circumstances. We were, perhaps, guided by the fact that the economic climate is such that we just have not availed ourselves of the protection.

Q. The evidence given before this committee has been that there is a great need for these people to get small loans. The result is that they have had to go to small loans companies in larger numbers, and borrow ever increasing sums of money at rates of interest of 2 per cent per month, when the banks, that were set up to provide funds to the public, apparently from what you say, have not taken advantage of the powers given them by parliament to give the service in that field. Now, I, for one, was advised sometime after this act was passed, by a bank manager that he had not even been advised that the act had been changed and as a result the banks were just ignoring the wish of this committee when they were given new charters. I for one want to know to what extent they have ignored these additional powers that were given to them for the specific purpose of meeting the needs, when the charters were renewed.—A. I could not suggest that they have been ignored.

Q. If you have not taken advantage of it to any extent, it looks as if it has been ignored.—A. Having regard to this bank interest rate, shall I say, and certain other factors, we just have not taken advantage of it, perhaps, to the extent we might have if the economic atmosphere were different. Certainly in the larger amounts, I imagine that the banks have given great consideration to the taking of chattel mortgages, but not on the smaller ones.

Q. It certainly is the feeling of this committee that when you were given these very valuable charters by parliament that you would regard yourself under some obligation to give the service to the small borrower, out of which you would not make quite as much money as the big borrower. Mr. Chairman, I would like to have those figures, to the extent which this amendment, which was very liberally put in the act by the committee to help the small borrower—to what extent it has been taken advantage of by the bank.

By Mr. Fleming:

Q. I would like to know too of any instruction or request that the banks have received from the Bank of Canada to restrict credit lending operations, Mr. Nicks—A. To small—

Q. In any field including the small loans field.—A. I do not know that there is any suggestion from the Bank of Canada having to do with our direct dealings with applications for small loans.

Q. I am not suggesting that you single that out, but I was just wondering if you would tell the committee about your instructions, or requests from the Bank of Canada with relation to curtailment of credit lending.—A. I would say, Mr. Fleming, that the banks have a common feeling that the Bank of Canada, in the circumstances of the economic pressures of today, that there should be, shall I say, certain curbs designed to keep things more in balance.

Q. You had some communication, I take it, from or discussion with the Bank of Canada?—A. That is right.

Q. Did the Bank of Canada not express the feeling that on account of the danger of inflation there should be some restriction on your credit lending? A. That is right.

By Mr. Argue:

Q. Mr. Nicks, I would like to ask a question following along the line that Mr. Fleming has been asking. In your discussions with the Bank of Canada, or in your understanding of the economic climate, to which you have referred, did you get any impression that the Bank of Canada would prefer you to make a greater restriction in loans other than the small loans field? In other words, in your discussions, was there expressed a need to be careful in making further loans? Was there any suggestion from the Bank of Canada, or any official of the government, that you should not use the same type of restriction in the small loans field?—A. I do not think there was any particular segment picked out where we could not do this and could not do that.

Q. The reason I am asking this question is because I do agree with the remarks that Mr. Tucker has made, that the amendment last year should definitely have been used and promoted, and that the banks are failing to give the service that they are capable of giving, at a very nominal rate of interest; and as a result of that it is forcing people to pay the extortionate rates of small loan companies. So, what I am thinking is this: if the government, or the Bank of Canada, it would seem to me, wished the amendment promoted that they would have said to you that they would like you to use fewer restrictions in the small loans field. Would you agree with that?—A. We have been taking chattels, but many of our managers, perhaps, feel it is very cumbersome. Indeed, in the final analysis, they probably feel that the calculated risk is such that they prefer to make a particular loan to an applicant by doing it without the necessity of the additional cost involved.

Q. Therefore you turn down a lot of these cases?—A. I would not say that.

By Mr. Fulton:

Q. That is what I wanted to find out. Some of the questions approached it from that angle, and the suggestion that you have not actually been taking chattel mortgages has been interpreted as meaning that you have not been making loans. I want to get that clearly established, if we can. Have you in fact—has it been a case of your members, that they have had a steady increase, or what sort of an increase has there been made in the volume of what we might describe as small loans lending?—A. It seems to me, sir, that these figures themselves certainly display our anxiety to be good citizens and take care of these small borrowers to quite a large extent. I think these figures themselves show that.

Q. Your last comparison in your memorandum is of 1950. Would you care to venture an opinion as to what, if any, has been the rate of increase since 1955—since the time the amendment was put through in 1954?—A. I may have those figures.

Q. Because, I do not think you should be criticized simply because you do not take chattel mortgages, but you might be due some criticism if you cannot show that you have been increasing the lending.—A. Thank you. Mr. Fulton, the figures I have here relate to personal loans to individuals for other than business purposes. For March, 1954 they stood at \$311 million. In December of 1955 they stood at \$440 million.

By Mr. Enfield:

Q. Could you clarify that? Do they include loans that are secured by marketable stocks and bonds, and home improvement loans?—A. No, these are altogether separate.

Q. They are separate?—A. Right.

Q. They are loans up to \$3,500, are they?—A. The figures include all personal loans to individuals for other than business purposes. We have not got this particular table broken down.

By Mr. Fulton:

Q. What was the period within which that increase took place?—A. This is a report of March, 1954, to December, 1955.

By Mr. Monteith:

Q. Am I right, Mr. Nicks, in coming to the opinion that these loans you have mentioned are all loans which have an equal payment, or some basis of repayment? They do not include loans which may be made for a period of time—for three months, say, of \$500, on a demand note, or something like that? They actually include loans which are to be repaid systematically?—A. The figures that are presented in this statement refer to all loans under any arrangement whereby a fixed amount is repaid periodically and is considered to be an instalment loan.

By Mr. Tucker:

Q. Mr. Chairman, could I ask the witness this question: is it possible to get the figures, comparative figures, for the previous year as to those which are given on page two, giving the number of loans of \$300 and under and \$300 to \$1,000? That would be along the line of the point raised by Mr. Fulton. Of course, if the banks are quite prepared to lend money to those small borrowers without security and did not need this change in the Bank Act—I understood they thought it would be helpful to them—and they are meeting this need to the extent suggested, I find it difficult to understand the situation. Because, apparently these people borrowing from small loans companies are people who do repay their borrowings, because the loss rate is very low. I cannot understand why the banks cannot fill this field more efficiently than they are, where these credit-worthy borrowers are being forced to pay 2 per cent interest per month. Now, to me that is a standing reproach to the banks who hold these valuable rights under their bank charters from parliament.

Now, if they were given these rights so they could give this service of providing credit to our citizens, it was certainly intended to be given to the poor citizens as well as the rich. The fact that we are finding a situation developing where more and more companies are finding it necessary to go into this field and supply this service, and they have got to charge 2 per cent per month because they have not got the valuable rights that the banks have got of extending their assets on the basis of their reserves, to the extent of roughly ten to one, and as I understand it these rights were given to the banks so that they would give that service on a cheaper basis than would otherwise be possible. They were given to the banks to service the poor as well as the rich, and the fact that these people are having to resort to small companies, and these companies are growing in numbers by leaps and bounds, and so on, is something to which I think the Canadian Bankers' Association should give very careful attention. That is why our committee, last year, gave you those extra rights.

I would like to know very much, Mr. Chairman, to what extent this move of the committee, that the banks would service these people—those are the people who require small loans, and are being forced to go to small loans companies—to the extent the banks have begun to meet that demand. The only way in which I feel you can give that information would be to give comparative figures to the figures you gave there on page two in respect to a year ago.

By Mr. Crestohl:

Q. Mr. Chairman, going a little further in respect to the point raised by Mr. Tucker, I think we would be interested in asking some questions of the witness, who is here to testify as the president of the Canadian Bankers' Association, and not as a representative of the Bank of Nova Scotia. Am I right?—A. I am here representing the Canadian Bankers' Association.

Q. And following Mr. Tucker's thinking, will you tell the committee whether, since last year—or, before I put that question: I understand that the Canadian Bankers' Association meets from time to time, does it not?—A. Yes.

Q. And in the association all the banks of Canada are represented?—A. Yes.

Q. Will you tell the committee, since last year, or since the Bank Act was amended, how many times has your association met, approximately?—A. We have general meetings twice a year and since June of last year, we have probably met five or six times.

Q. And at those meetings you discuss problems or matters common to all banks?—A. Yes.

Q. Could you tell the committee whether at any of these meetings the amendment to which Mr. Tucker refers has been discussed in any form?—A. I do not recall any particular meeting at which the particular matter of the taking of chattel mortgages was discussed, no.

Q. We are not talking about the question of chattel mortgages—

The CHAIRMAN: That was the amendment, Mr. Crestohl.

By Mr. Crestohl:

Q. To enable you to enter into the same kind of lending business as the Canadian Bank of Commerce?—A. We have never discussed that.

Q. As president of the association, I assume you attended most of the meetings?—A. Yes. I did miss the odd one.

The CHAIRMAN: You have never discussed changing your lawyers and getting a different lawyer? It seems to me to have been very profitable for the Canadian Bank of Commerce.

By Mr. Crestohl:

Q. Did you discuss the amendment at all at those meetings?—A. No, not at the meetings I attended.

Mr. FLEMING: Excuse me—the amendment relates to chattel mortgages.

Mr. CRESTOHL: That is right.

The CHAIRMAN: You are talking about that now?

Mr. CRESTOHL: I am talking about the amendment to the Bank Act made last year to enable the banks to make small loans.

Mr. FLEMING: Let us get this straight. The 1954 amendment simply empowered the banks, in addition to their other powers, to lend money on the security of chattel mortgages..

Mr. CRESTOHL: Correct. For the purpose of making small loans.

Mr. FLEMING: That is not specified. It is just in relation to chattel mortgages.

The CHAIRMAN: Small loans were not mentioned in the wording.

Mr. TUCKER: It was intended to enable the banks to give the service in this consumer borrowing field, and it was done definitely with that idea in mind, that this service should be extended to the small borrowers at a rate lower than they were paying to the small loans companies. That was stated over and over again.

The CHAIRMAN: That may have been the purpose, but it was not the amendment.

Mr. TUCKER: No, but the banks were sitting in at these meetings and they heard it stated over and over again. What Mr. Crestohl has been getting at is this: have they paid any attention whatever to our expressed hope at the time when we passed that amendment?

Mr. FLEMING: In all fairness to the witness and the questions which members are putting, let us keep these two things clear: one was the amendment to permit the banks to lend money on chattel mortgages; the other was this matter of the Bank of Commerce engaging in loans in the personal loans field through a personal loans department in which their interest return went up to 10.46 per cent. The amendment did not concern that subject.

Mr. CRESTOHL: No. The amendment was introduced for the purpose of making that service possible by all the banks of Canada. We were told that there was a difference of legal opinion as to whether or not it would be in violation of the Bank Act if the banks entered into the same type of business as the Canadian Bank of Commerce. Consequently, we amended the act to enable all the banks to do that same type of business.

Mr. FLEMING: No. I think, Mr. Chairman, you will bear me out in this: the personal loans department of the Canadian Bank of Commerce deals on personal security which would not be a matter of lending money on chattel mortgages; and the committee did consider at some length the operations of the personal loans department of the Bank of Commerce. There was some talk about amending the act at that time dealing with this section defining the maximum rate of interest that a bank might charge, but, in the end, no action was taken on that. But because the banks did not have the express power to lend money on chattel mortgages the committee saw fit to recommend, and parliament to enact, an amendment to permit the banks to lend money on such security.

Mr. CAMERON (*Nanaimo*): On the other hand, Mr. Fleming, you will remember that the amendment arose on the ground that the witness for the Canadian Bankers' Association at that time, when those hearings were held, pointed out that one of the obstacles in the way of entering this field of personal loans was the inability of the banks to take chattel mortgages in the same way as the small loans companies were doing.

Mr. FLEMING: I only suggest that we keep the situation clear as to whether we are talking about lending money on chattel mortgages or the lending operations which the Bank of Commerce carries on through its personal loans department, because I think that in some of the questions the two subjects have been treated as though they were the same thing, and they are not.

Mr. TUCKER: The whole purpose of this amendment, as I saw it was to enable this wider service to be given to the public. We are concerned about the extent to which the banks are meeting this need—it does not matter whether it is being done by taking chattel mortgages or otherwise. We are concerned to the extent to which the banks recognize that this need exists and are meeting it. They are set up to make credit available, and they are

failing to do it in this field, with the result that there is this continual increase in the number of small loans companies and an increase in the number of loans made by them and the total charges which they are having to charge—and I am not saying that in the light of the restricted powers which they have, compared with the banks, that they do not have to charge more than the banks. But the public have to pay two per cent per month. Surely the banks have considered the wishes of this committee that these small borrowers should receive some consideration—wishes expressed at the time their charters were renewed—and I understand Mr. Crestohl is concerned about whether the Canadian Bankers' Association has paid any attention to repeated expressions of hope that the banks would meet this demand by small borrowers. It would appear from the evidence we have heard already that there has been no attempt to do so, because the small loans companies have been increasing in numbers and their loans have been increasing in amount; and it looks as if the powers given to the banks have not been exercised, that is, the power to extend loans in this way to credit-worthy small borrowers—and they must be credit-worthy or they would not be repaying these small loans contracted to the small loans companies.

Mr. BELL: If we had more figures it would enable us to make up our own minds; if we had the monthly figures with regard to these instalment loans we would be able to detect a trend, surely, in this practice. I would like to ask if it would be possible to have more sets of figures, preferably by the month?

Mr. FULTON: Since the amendment was made to the Bank Act?

Mr. BELL: From last April when this suggestion was made to the Bank of Canada.

The CHAIRMAN: The giving of the privilege of taking chattel mortgages as security was done in order to encourage more personal loans, but the mere fact that that authority was given does not necessarily mean that the banks are going to lend more, because it is only one form of security. It was just an attempt—that was all we figured we could do at that time.

Mr. FULTON: Would it not be fair to say that they, in the course of the discussion in this committee, suggested that it might make it easier for the banks to make these loans if they could take that type of security? While the amendment did not compel them to take chattel security, is it not a fair question now to ask: what has been the result of their experience—have the banks followed the policy that wherever possible they would make this type of loan? If so, what has been the result?

The CHAIRMAN: I think the witness has pointed out that he has no figures on that.

By Mr. Crestohl:

Q. To put this in another form, I am not suggesting that the banks were under an obligation to do that, but I am attempting to explore whether or not the banks have studied the matter at all—to find out whether the banks gave the amendment any consideration. Did they do any exploratory work to see whether they could render the people of Canada this service which the Banking Committee intimated might be possible? They are not under any obligation to have done it.—A. I can say that I am quite confident—and I speak now for the Bank of Nova Scotia, but I am sure this applies equally to all members of our association—that we are all keenly aware of our obligations to the public and we are very anxious to be good citizens. Indeed, these figures which I have presented to you show that the total of the instalment loans as we have compiled them on one particular day—I am sorry we have no comparable figures—these figures show that we are not doing too bad a job on that score.

Q. No one in this room, I think, doubts that the banks have been doing a magnificent service, and I would be the last to deny it.—A. I wanted to make this point from the standpoint of the request for comparative figures—the figure I gave for March, 1954 of \$311 million as against \$440 million in December, represents an increase of 30 per cent. I cannot separate the percentage of loans that might have been made with the provision of a chattel mortgage.

Q. You may be right. We are, I think, concerned with the possibility of the banks doing an even greater service to the people of Canada than they have in the past, and this committee last year was under the impression that we tried to facilitate your doing this greater service for the people of Canada, and now, while we have the advantage of having you before us again—you are a new president of the association—we thought we would like to know whether you had done anything about it, or whether you have studied it. Have you discussed this matter at your meetings?—A. There was no discussion at our meetings. I expect that each of the banks proceeded in its own way; there is very keen competition in these many fields of lending, and I can only speak for the Bank of Nova Scotia. Certainly, we did study this; we have not just ignored it, and I would not suggest for a minute that it is not a good thing.

Q. Well, this committee does not intend, or has no authority, to give you any instructions, but we hope you will take away from this meeting some of the thinking which some of the members have been expressing.—A. I am happy to have had this opportunity to do that.

Mr. KNIGHT: Was I right in understanding, following Mr. Tucker's question—and I may say I could not agree with anyone more than I agree with Mr. Tucker—

Mr. FULTON: All the time?

Mr. KNIGHT: On this particular question!

Mr. CRESTOHL: It is the new policy!

Mr. KNIGHT: I have differences with him on other occasions, but these temporary alliances are perfectly legitimate. The point I want to make is this: was I correct in understanding that the witness said one reason why the other banks, except the Bank of Commerce, are not doing more of this type of business is that they consider that this statutory limitation of interest rate of 6 per cent is something which prevents them doing it to a considerable extent?

The WITNESS: Yes, I think that is true.

Mr. KNIGHT: I suppose I cannot ask this question of the present witness, but I understand we are going to have an opportunity to question someone from the Bank of Commerce. . . The witness must consider, then, that the Bank of Commerce, in doing what it is doing in its discounting business, which raises the interest rate to a rate of 10.6 per cent, is exceeding the terms of the act, or is interpreting the act wrongly, or else is doing something which as far as the other banks are concerned might be considered unethical. I am not asking the present witness that question but I am going to ask it of the witness who appears to represent the Bank of Commerce when he comes before us.

Mr. CRESTOHL: There is a conflict there.

By Mr. Fulton:

Q. In the light of your feeling that an interest rate of six per cent was inadequate, did you come to any conclusion as to what interest rate would be adequate to cover this small loans field?—A. No, I cannot say that.

By Mr. Argue:

Q. If the Bank Act made it clear that the type of thing which the Bank of Commerce is doing is completely legal and beyond question, and that you, in your bank, could set up a small loans department and charge an effective rate of 10·46 per cent, would your bank in that case give greater consideration to this field and promote its own small loans department in this field generally?—A. Speaking for the Bank of Nova Scotia, yes.

By Mr. Cameron (Nanaimo):

Q. Could I pursue a point which Mr. Fairey raised some time ago with regard to the discounting of loans? You will recall that he asked you if your bank made a practice of discounting loans. You said they did on occasions and, therefore, someone approaching a manager of your bank for a \$100 loan would get \$94, assuming that the rate being charged was 6 per cent. Is that correct?—A. I say this: it is discounted at a rate that will produce an effective rate of 6 per cent. On a loan of \$100 for 12 months, the discount is \$3.25 which produces, as I say, the effective rate of 6 per cent.

Q. So anyone getting a loan of \$100 at the 6 per cent rate would be discounted some fraction of that 6 per cent?—A. Yes, if we are talking about instalment loans.

By Mr. Knight:

Q. I do not like the principle of discounting generally, but is it not your opinion that you would be rendering a greater service to the Canadian people if you were in this business and giving these people loans, even at what I consider a fairly high rate of 10 or 11 per cent, which is involved in discounting, and giving loans at that particular rate rather than sending these people into the hands of those who are charging virtually 26·8 per cent per annum? Do you not think that the bank would be rendering a better service to these people—we are not discussing the legality at the moment; apparently there cannot be too much that is illegal about the action of the Canadian Bank of Commerce when they have been doing this for a number of years?

An Hon. MEMBER: Since 1936.

By Mr. Knight:

Q. That is my question. Would you not consider that you would be rendering a greater service to the Canadian people, particularly that class of people in need of this service, if you were to take similar action to that being taken by the Canadian Bank of Commerce?—A. I repeat again—and I am speaking for the Bank of Nova Scotia although I expect that the other banks share our view—that we are deeply conscious of our responsibilities to the public.

In respect to your other question, if we had an effective rate of 10 point, so and so, would we take advantage of the chattel mortgages, I think perhaps the answer should be "yes".

Q. The only thing which is keeping you from doing it is your different interpretation of the act than the interpretation which is taken by the Canadian Bank of Commerce?—A. I have never seen that solicitor's opinion. I must say this, that we must have a different solicitor.

The CHAIRMAN: That is why I suggest that they should get a more profitable lawyer!

By Mr. Batten:

Q. Suppose that a borrower came to borrow \$100 to be repaid in equal monthly instalments over a period of one year, what would be the cost of that \$100? I do not want it in percentage, I want it in dollars and cents.—A. \$6.

Q. Then if the bank is prepared to lend money to borrowers at 6 per cent, can you explain why people will go to the small loans company and pay \$13.46 for the same service?—A. It may be—again I am only speaking personally—that we are not as aggressive; it might be that.

Q. Would it be that the regulations which you lay down are more stringent?—A. We are not more aggressive for perhaps more than one reason.

Q. What I am trying to get at is this: There must be some significant reason why, if a person wants to borrow \$100, he would be prepared to borrow from the small loans company at \$13.46 when he can borrow from you for \$6?—A. I think certainly one of the main reasons might be that we are not as aggressive in offering that facility, whether it be by advertising or what.

By Mr. Fairey:

Q. Mr. Chairman, may I ask a supplementary question? When you said that the cost to the borrower would be \$6, when do you take the \$6?—A. We make an effective charge of \$6.

By Mr. Tucker:

Q. Six per cent?—A. Yes, six per cent.

Q. The question was this: The dollars—\$100—was borrowed, and was repaid by instalments over a period, so that the average amount outstanding would be \$50, and if you charge \$6 your effective rate would be about 11 per cent. That was your answer?—A. I am sorry. I thought it was a straight loan of \$100.

Q. So that actually, in a case such as in the case presented to you, if \$100 was borrowed, your understanding of the act is if it were repaid in equal instalments over the year the actual charge to the borrower would not be \$6 but would be \$3. Is that not correct?—A. From the standpoint of \$100 for a year, regardless of whether we discount it or add interest to it, we would end up by having earned \$6.

MR. ARGUE: Not if repaid in equal monthly instalments, because you would not have the \$100 out for the full year.

By Mr. Tucker:

Q. It would cost the borrower a little over 3 per cent. That brings up the question again, in my mind and I am sure in the minds of the members of the committee, why is it, if you are giving this service to credit-worthy borrowers and they can get \$100 for slightly over \$3, that they go to the small loans companies and pay \$13 and some? Is it not something to concern the Canadian Bankers' Association, whose members are supposed to extend credit to credit-worthy borrowers, small or large, that are actually refraining from extending in this field to the extent that parliament, and this committee, are being importuned constantly about the small loans matter. The companies are increasing in number and the amount of loans is being increased and poorer people are having to pay 2 per cent per month when better off people can get money for 6 per cent per annum, or less. That is what makes many people feel that the banks are not doing the jobs for which the banks

are given charters. I am sure that it is the intention of parliament that credit-worthy borrowers who happen to be poor should get as much consideration as the wealthy man. I do suggest that, and I hope that the Canadian Bankers' Association realizes that most of the members of this committee are not too happy about being constantly accused of permitting exorbitant rates to be charged and told that it is necessary for those companies who do this to be in this field because the banks do not give the service.

Mr. FOLLWELL: I have never been accused.

Mr. TUCKER: The charge has been made often in Parliament.

Mr. CRESTOHL: Would you allow me to follow through with just one more question along the same line. Assuming, Mr. Nicks, that there is a conflict of legal opinion as to whether all the banks should enter the small loans field, and assuming that—

The CHAIRMAN: I do not think that there is any question of legal opinion as to whether the banks can go into the small loans field. It is as to whether the rate should be 6 per cent per annum.

By Mr. Crestohl:

Q. Assuming that you were given authority by legislation to enter the small loans field and to charge 10·46 per cent, do you think that the Canadian Bankers' Association or the banks have any other grounds or reasons for refusing to enter the small loans field?—A. I must confess that I think these figures support the fact that we are in the small loans field. We certainly are not leaving any impression that we want to keep out of the small loans field.

By Mr. Tucker:

Q. What I say is true that the number of the small loans is increasing very rapidly, and apparently the record indicates that these are loans to credit-worthy people, because the record of loss is very small. On the face of it, it looks as if the banks are refusing credit to these people because they are not given small loans even though credit-worthy by the record. How do you explain the fact of the tremendous increase in small loans to credit-worthy borrowers, if you are meeting the obligation which I think you admit you have to the poor man as well as the rich man?—A. I can only repeat that it is perhaps because we do not aggressively advertise. We had a noticeable increase of 30 per cent in the period to which I referred.

Q. Can you not get the figures for this in respect to what was set out on page 2 as to the amount of loans outstanding in the same category a year ago? You have the figures for March 15, 1956. Could you get us the figures for March 15, 1955?—A. I could certainly make inquiries as to whether it would be possible to develop that figure. I do not know whether we could develop it back a year ago.

Q. It appears that the ones entering this field are prepared to give the service, and then, of course, the necessity of us authorizing these much higher rates comes in question. There is also some question as to the extent to which it is proper for the small borrower to pay the tremendous advertising costs, which overshadows the banks who give the service at a much lower rate. The Canadian Bank of Commerce said that this service is there for the borrower at an effective rate of around 11 per cent. Yet here we have the tremendous increase in the number of people borrowing at a much higher rate, and they said in their brief to us that the only thing that they could adduce from that would be that it is more important to advertise than give good service at low cost. That was a surprising statement in their brief.

If this is the answer, that this business is there not because it is necessary for people to go to the small loans companies but because they do not know that they can get the service from you—and this other service is right under their noses—then it is something which we should want to think about, because the poor man can less afford to pay 2 per cent per month than can the rich man. That is what is developing in our system today. I think that the Canadian Bankers' Association should be just as interested in this as are members of the Banking and Commerce Committee.—A. I do not suggest that we do not advertise at all. We do, in our advertising, of course, offer many other services because we are anxious to give a full service to our customers; it is not that we are directing it to one service.

Mr. FOLLWELL: Do you use neon signs?

By Mr. Fulton:

Q. You do not go after the man off the street? You are just anxious to give a good and a wide service to the customers? Is it your practice in any way to hope that you will get the casual man coming in looking for a personal loan and nothing else?—A. We try to service those people seeking services from the standpoint of borrowing.

By Mr. Lusby:

Q. Would you say there is a considerable number of borrowers who apply to banks first and are refused?—A. No.

By Mr. Argue:

Q. Do you think in this general field of small loans that with the rate of 6 per cent the banks today are making a profit?—A. No. I think not.

Q. You think there is a loss in that particular department?—A. Yes. That would be my view. Again, with respect to the question which was asked as to whether an effective rate of 10 point whatever it was would create more interest, I think the answer should be "yes".

Q. Would you say, at a rate of 10·46 per cent, that loans in this field would then show a reasonable profit as compared to loans at these other figures? In other words, would a rate of 10·46 enable the banks to promote this type of loan in the same way that they promote other loans? Would it be more profitable at 10·46 than at the other rates?—A. I do not think we would make much money at 10·46; but again, here, I have not mentioned it before, but I have not been able to establish a cost figure.

By Mr. Hamilton (York West):

Q. Your answer might be different if you were just carrying on a particular line of business such as the personal loan field?—A. Quite. But speaking for the Bank of Nova Scotia—and I think the other banks would associate themselves with me in this regard—perhaps the way we are educated, our training has something to do with it. We start off with a deep sense of the necessity for thrift; consequently that may have some effect on the aggressiveness with which we proceed after small loans.

The CHAIRMAN: Gentlemen, it is now 1.00 o'clock. The committee stands adjourned until 3.30 this afternoon.

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: We have a quorum, gentlemen. Are there any further questions?

Mr. F. W. Nicks, President, The Canadian Bankers' Association, recalled:

By Mr. Henderson:

Q. At the top of page 2 of your statement you say:

This survey of all branches of the chartered banks showed that on March 15, 1956, there were outstanding 431,485 instalment loans to individuals not secured by stocks and bonds up to a maximum of \$3,500—what the banks call personal loans. The total outstanding amount of these loans was \$220,124,000.

I would like to know if that figure includes farm improvement loans, home improvement loans, and veterans' loans in that group?—A. I quickly say that I think not, although later on there is a figure which would include home improvement loans, but I think that is the only place.

Q. What about farm improvement loans, would you not call that a business?—A. Oh, yes.

Q. Well, do the banks which are members of your association lend money to the loan companies with which we are dealing now?—A. Yes, they have credit lines open to them.

Q. What do you take as security from them?—A. In some cases there is no security required.

Q. Do you take any assignment of their paper or anything like that?—A. Actually, I am thinking of the licensed loan companies and I do not recall—I can only speak for the Bank of Nova Scotia—and we do not take any paper as I recall it from the licensed small loans companies.

Q. What rate of interest do you charge these small loans companies when you lend them money?—A. At the moment I think the rate is 5 per cent.

Q. That is the recent rate?—A. Yes, there was a recent increase in the rate.

Q. What was it before?—A. It increased from 4½ per cent to 5 per cent.

Q. Is there an extensive lending arrangement between the banks and the loan companies on that basis?—A. I can only speak for the Bank of Nova Scotia. There are credit lines with many of the loan companies. We enjoy some of their business but we do not enjoy the business of them all, and we do have credit lines open to them.

Q. If a person getting a small loan from your bank should come in, he would be charged 6 per cent—is that correct?—A. No, not necessarily, that is the maximum charge.

Q. You say the maximum.

The CHAIRMAN: Are there any further questions?

By Mr. Benidickson:

Q. It must be a lot more expensive to the banks to service a lot of small loans, shall we say, as against more or less a wholesale lot in the form of a loan to a small loans licensee with a relatively insignificant difference in the interest charge.—A. It certainly is more costly, I would judge, to handle a volume of small loans, yes.

By Mr. Enfield:

Q. In answer to a question this morning you were rather unwilling to explain the exact restraint imposed through government policy by the Bank of Canada on your credit and on the extension of credit by the banks. Would you say that government policy as expressed by and through the Bank of Canada has any impact on the volume of small loans business that the banks in your association might do?—A. I do not really think—again speaking for the Bank of Nova Scotia—that our managers are being guided by any instructions which would suggest that they screen small loans prospective customers when they approach us.

Q. The only thing I find wrong with the answer is that it belies one's own experience during the year with one's own local bank—not just an isolated and single experience, but one which has been repeated on many occasions—namely the unwillingness by the banks to extend a new line of credit. It may be that the banks will continue an old line of credit but they are certainly very unwilling to extend a new line.

Q. If these small loans customers come in and request an advance within the field of small loans, I do not think there is any problem there.

By Mr. Cameron (Nanaimo):

Q. Is there not an agreement more or less between the chartered banks and the Bank of Canada that there is to be a curtailment of term lending?—A. Yes.

Q. Would the line of credit which you issue to small loans companies fall within that category?—A. Now we are speaking entirely of the credit line of small loans companies on a wholesale basis apart from a small loan customer himself?

Q. Yes.—A. I think the banks are perhaps exercising some restraint on the extension of any credit line at the moment to small loans companies as such.

Q. As a result of representations made to the Bank of Canada?—A. As a result of the consultations we have had, perhaps.

By Mr. Enfield:

Q. In the annual report of the Bank of Canada Mr. Coyne says that the banks have agreed to work to achieve a minimum liquid asset ratio of 15 per cent which they will endeavour to maintain on a daily average basis from June on. Does this have any effect on the extension of bank credit particularly in the small loans field?—A. No, I do not think it has anything to do with the small loans field particularly.

Q. Does it not mean that you have to maintain higher cash reserves?—A. Yes, but not particularly in that field. That has an over-all effect.

Q. But it does have an effect?—A. Yes, it does have some effect in the small loans field, but we just do not sort them out.

Q. But you have to restrict your credit?—A. Yes.

Q. That is the answer I wanted.—A. I am sorry, I thought you meant that we were discriminating.

The CHAIRMAN: It would have saved time if you had told him what you wanted, and then he could have agreed or disagreed!

By Mr. Follwell:

Q. When you submitted your brief you gave us a breakdown made on the basis of the original amount of loans, and you made a list in the last one of the number of loans from \$1,500 up to \$3,500. What is your definition of a small loan? What is the bank definition of a small loan? You have indicated

them up to \$3,500. Is that the breakoff point for what you term a small loan?—A. Actually this has to do with instalment loans. Why did we pick that \$3,500 out? I do not think it reflects our thinking on small loans. Actually I think it was chosen because it was felt it would be more helpful in taking care of such an instalment purchase as an automobile, or something larger in the line of consumer credit, or something beyond the really small loans category. I think that was the thinking behind the establishment of that \$3,500 figure.

Q. You are indicating, I presume, that this \$3,500 is the cut-off point on the basis of which the banks have set instalment loans?—A. I think that would be pretty well the top.

Q. You have not yet—if you care to—told us what in your opinion is considered a small loan?—A. I have always thought of a small loan as being \$1,500 or under, but that was only my own personal opinion.

Q. That is all we want.

By Mr. Henderson:

Q. You said before lunch that the banks did not get any small loans, but when I asked you about small loans, and the loans you make to those companies to carry on their business you stated that the depositor could get a small loan at a maximum rate of interest of 6 per cent. Why does not your bank, or the other banks, take that money that you put into circulation for the small loans companies for them to use, and use it and allocate it to your own banks for small loans business administered by your own banks?—A. Well, actually we have not found a shortage of money to take care of what we call our small loans business. From the standpoint of the raising of money and allocating it to our own small loans business, it means taking a more aggressive step to develop it. Perhaps it has been affected by that 6 per cent maximum charge.

Q. I do not just get that. Do you mean to tell me that there are not people who come to your bank and ask for a small loan, who would take up that amount of money?—A. I do not know. I feel we are taking care of the demands that there are.

Q. You must agree that there must be some demands?—A. There might be some of them turned down. We endeavour to take care of the demands upon us, but we are not going at it aggressively.

Q. It is a problem.—A. I made a point this morning that I think it is a fair assumption that the banks would be perhaps more inclined to go out looking for them if the interest rate was right.

Q. Wouldn't that be a good amount of money to allocate to this proposition of being able to take chattel mortgages, if there were any assets to take a chattel mortgage upon?—A. We do take certain chattel mortgages. I do not know if the fact that we are not taking more has affected our lending in that field.

Q. With your line of credit which you say you give to the small loan companies, you charge them a maximum of 5 per cent?—A. A minimum.

Q. Could the sum of those, which you take with possibly little security for them, not be allocated to your own small loans business?—A. I would be hopeful that we would have sufficient moneys to be able to continue credit lines on that basis as well as taking care of our own small loans customers. I do not think it is necessary for us to close off this credit line to find money for our own small loans purposes.

By Mr. Benidickson:

Q. If a chattel mortgage security is utilized there are certain legal costs and registration costs. Who bears the expense of the chattel mortgage?—A. I believe in our case the customer bears the expense.

The CHAIRMAN: Are there any further questions? If not we shall proceed to the next witness. Thank you very much, Mr. Nicks. Now, Mr. McPhail.

Mr. I. A. McPhail, Deputy General Manager, Canadian Bank of Commerce, called:

The CHAIRMAN: Mr. I. A. McPhail is the deputy general manager of the Canadian Bank of Commerce. I understand from him that as such the small loans operation of their banking business comes under his direction—not his immediate direction, but I should say, perhaps, his supervision.

The WITNESS: Yes, that is within my area of responsibility.

The CHAIRMAN: Within his area of responsibility. He has not prepared a brief, as I understand it, and is here to answer any questions the committee might wish to ask him.

The WITNESS: That is correct, Mr. Chairman. We prepared a brief in April of 1954 in connection with the decennial revision of the Bank Act, and we have not thought any very useful purpose could be served by preparing a fresh brief, inasmuch as our experience has not changed materially since then. I am here to answer any questions to the best of my knowledge that the members of the committee may wish to put forward.

By Mr. Philpott:

Q. Would you say that your bank is as satisfied with your small loans business as you were two years ago when you gave evidence before this committee before?—A. We are not complaining.

Q. At that time your president, I think, said you were quite satisfied with the general set-up and the rate you were getting, and you intended to carry on. Has that been your experience?—A. That has been our experience.

Q. There has been some talk here to the effect that the new policy of the Bank of Canada is restricting, or raising the rates and restricting credit, had an adverse effect on some lines of business, especially in the mortgage field. Has that been true in the small loans field too?—A. Not so far as we are concerned.

Q. You have not cut down at all in the small loans field?—A. Not at all.

Q. Have you cut down in the mortgage field?—A. Yes.

Q. You have cut down in the mortgage lending field but, not in the small loans lending field?—A. Correct.

Q. Is that a matter of policy? In other words, do you regard the small loans field as more important than the mortgage field?—A. Not necessarily more important.

Q. Has the availability of the money anything to do with it? What I am trying to get at is, what is the reason for the difference in the policy?—A. I do not know that there is any specific reason, except that mortgage lending is pretty long-term lending, whereas the personal loan lending is of a much shorter term. I think perhaps that is the answer to it.

Q. That is the only question I wanted to ask, but I wanted to make sure that your bank is still just as satisfied as it was two years ago with the general set-up of the small loans business.—A. Of our personal loans department, yes.

By Mr. Knight:

Q. Mr. Chairman, I would like to ask the witness a question. Your bank would be a member, I presume, of the Canadian Bankers' Association?—A. Yes.

Q. Mr. Nicks, the president of that association, has been giving evidence this morning. My question has to do with the fact that the Bank of Commerce, I think, is the only bank in Canada which more or less specializes in this small loans business, as we understand that term. Now, there has been, or apparently is, a difference in the interpretation of the Bank Act on the part of your bank and the other banks in Canada. To be specific, you people are lending—doing a large business—in the small loans field. We are told that you are, by a system of discounting—and I am not familiar with financial terms but, as I understand that, that is when you take from the borrower the interest ahead of time, as it were, and by that device, if one might use that word, you bring the interest rate of 6 per cent up to approximately 10 or 11 per cent, I do not know the exact figure. Now, in answer to my own questions to Mr. Nicks, he explained that for some reason they did not do that, and that their interpretation of the act makes it impossible, in their own minds, at least, to do that. In other words, there is an implication that what you are doing is in effect illegal, in terms of the act. I would like to get your comment in regard to that, because we thought that if you people had been doing this—carried out this practice since 1936, I think it is—and I think, personally, doing a considerable service to the people of the country, and particularly to these borrowers—we do not quite see why the other banks cannot do the same thing. While I think that 11 per cent per annum is a substantial rate of interest still, by not running that service these other banks are forcing these small borrowers into the hands of what we call the small loans companies, who are charging them what I think is virtually, according to the evidence given in this committee, 26·8 per cent or some such thing, per annum. Now, I would like some clarification on that point, particularly on this question of your interpretation of the Bank Act, and a general comment on the case that I have put before you.—A. Sir, I think perhaps all I can usefully say on that subject is that we have received our solicitor's opinion to the effect that what we are doing is quite legal. We are content to rely on that opinion and, in fact, have been doing it now for 10 years.

Q. Has it ever been challenged?—A. It has not been challenged.

By Mr. Argue:

Q. You are in this small loans field, as you said, the same as you were two years ago. Are you expanding your operations in this field? You have been in it a long time, and you have been in it extensively. What has happened in the last two years?—A. The figures fluctuate. There might have been, in the last two years, a very small rise in it.

Q. As other members have said, there are a great many of us that believe that the Bank of Commerce is doing excellent work in this field. We would like to see other banks, chartered banks, follow the same kind of practice and also promote the use of this field so that they may substitute a rate less than the rate of the small loans companies, in the business that many people have to do now in that field. I want to ask whether you find this particular department in your bank's operations as profitable as the other departments?—A. I do not think we can compare one with the other. We have not taken out any figures which we could use for comparison. I think all I can say is that our personal loans department is profitable.

Q. Can you give the committee some idea of the proportion, or number of persons, who apply for small loans that are turned down? I know you probably

will not have the exact percentage, but is it a tiny percentage? Is it one in four?—A. I think I might have some information with me along that line. For the year 1955 the percentage turned down was 9·12 per cent.

Q. It was 9·12 per cent?—A. It was 9·12 per cent.

Q. Are those all members, or applications for a loan are they?—A. Yes, that is correct.

Q. Nothing to do with bad accounts or anything else in respect of loans that you have made in this department?—A. No.

Q. What percentage have been written off as bad debts, uncollectable; what is your loss pattern?—A. I think all that is covered in the brief that was given in April of 1954. I do not know that I have it here.

By Mr. Benidickson:

Q. I have a copy of that brief, but I was just going to ask you whether there are any significant changes in the pattern since Mr. McKinnon presented that brief?—A. No, there has been no significant change.

By Mr. Argue:

Q. Mr. Chairman, I have one further question. I wonder if the witness could tell us what the ratio of net profit made by the Bank of Commerce is to the capital investment and the estimated surplus? The reason I am asking that question is that we have had a great many statistics presented to this committee showing the rate of return—the net profit related to the invested capital in small loans companies. I wondered if you could give us some idea of the percentage of return on capital made by the lending companies.—A. You mean the capital made available to the personal loans department, as such?

Q. No, no. I would like something that is comparable to the figures that were given to us by the witnesses for the finance companies. They have a number of documents here. For instance, the Bellvue Finance Corporation Limited in 1954—in schedule 3 of that document—made a net profit of \$8,100, which they said was 9·5 per cent return on capital and estimated surplus.—A. Well, I am afraid I would not have that because our percentage ratio is calculated against the amount of outstandings.

By Mr. Benedickson:

Q. At page 820 of the 1954 committees proceedings, Mr. McKinnon indicated the net profit, after income tax, as a percentage on the net loans outstanding. Have you any up-to-date figure of that kind?—A. That is a little different from what the—

Q. Yes, I know, it is quite different.—A. No, I have no more recent figure than appeared in the brief.

Mr. ARGUE: What are those figures? Put them on the record so some of us who were not on the committee then will know.

By Mr. Benidickson:

Q. Mr. McKinnon at that time analyzed the personal loans plan of his company, in the year ending October 31, 1952, and he showed that operating profit as a percentage yield on net loans outstanding—2·48 per cent before income tax, and after income tax it was 1·24 per cent net profit.—A. You are reading from page—

Mr. BENIDICKSON: Page 820 of the blue book.

Mr. ARGUE: That was considered by him quite a satisfactory experience?

Mr. BENIDICKSON: He said he was making a profit and felt that they were giving service to their customers, as I recall the general summing up.

The CHAIRMAN: The institutions are hardly comparable, are they—banks and loan companies?

By Mr. Argue:

Q. Mr. Chairman, that is exactly the point I am endeavouring to get at—that the Bank of Commerce has been able to give good service at a reasonable rate of interest—just over 10 per cent, and that the bank, after it has paid its income tax, is able to show a profit of 1.24 per cent on outstanding balances. The Bank of Commerce says that it is satisfied, and the borrowers, I think, would say they are satisfied. I think it is an indication that this is the way small loans in this company should be made to a greater extent in the future.

The CHAIRMAN: There are certain reserves in the bank—there are certain inner reserves.

By Mr. Benidickson:

Q. I have a query, Mr. Chairman, on that point. If the net return is 1.24 per cent, I take it that unlike small loans companies, the bulk of the money that is made available for the small loans business of the Bank of Commerce would be depositors' money?—A. It is bank funds, generally speaking.

Q. Yes, but the larger percentage is from the deposit source rather than from paid-up capital and surplus of the institution, such as is the situation with a small loans company. Now, I take it that, I think, recently you have been paying depositors 2 per cent when they put their savings into your deposit account?—A. That is correct.

Q. And if your net return is only 1.24 per cent I was just wondering how you could show that profit?—A. That is after the cost of funds of course—the cost of supplying funds to the personal loans department.

By Mr. Crestohl:

Q. Mr. McPhail, would you tell the committee how your bank defines small loans?—A. I am sorry, I think that is a very difficult question to answer. It is one that was before the committee in 1954 and was not answered then.

Q. We are two years older, and I hope, perhaps, two years wiser, with some experience. Does your personal loans department consider a certain ceiling in determining whether it is a transaction for the small loans department, or the banks operations generally?—A. No; I would say no. There was an amount mentioned by the previous witness of \$3,500 as a sort of limit. Actually I think that is an arbitrary amount and has no particular significance. What really determines a personal loan is the ability of the borrower to repay on a regular basis, in instalments.

Q. How does the bank determine whether a customer who comes in for a loan should be classified as a customer to be dealt with by the personal loans department, in which case the bank would obtain an interest rate of 10 or 11 per cent, or whether he should be dealt with by your regular banking department? What enables you to decide from which source of funds he would get the money?—A. If the borrower's resources are such as to qualify him through the usual banking arrangements it is paid in that way; on the other hand if it is felt that his resources are not adequate for that purpose, but that nevertheless he has good earning power, it would probably come under the personal loans department.

Q. Do you especially advertise your personal loans department?—A. We are doing so.

Q. When you say you are doing so, do you mean you are paying special attention to this department over and above other parts of your banking business?—A. Yes. We advertise other phases of banking also but we do have advertisements specifically related to the personal loans business.

Q. And do you carry any insurance at all to cover losses?—A. Yes. You mean losses through deaths?

Q. Though deaths, yes. Will you tell the committee what type of insurance you carry?—A. It is life insurance that I am speaking of. In the event that the insurance takes care of the unpaid balance.

Q. You cover that with insurance? Who pays the premiums for that?—A. The customer pays.

Q. Could you tell the committee how much the customer pays, or give us an approximately schedule of rates?—A. Yes. For a 12 month loan it is 20 cents per \$100; for an 18 month loan it is 25 cents and for a 25 month loan, 45 cents per \$100.

Q. You were asked a moment ago about your profits and about what helps you to make those profits. Can you tell the committee whether the overhead on your personal loans department is not largely taken care of in the general overhead of the bank? Perhaps I should put the question a little more clearly. For example, the business is carried on in the same office, in the same branch, and no special rental is paid; the required staff, or management, is there attending to the general business as well as to the affairs of the personal loans department, and the same applies to your lights, telephones and other operating expenses. I assume there must be some means of making an allowance for that?—A. We do endeavour to allocate expenses to the personal loans business.

Q. Yes, but it is not quite as expensive as it might be if you were operating a personal loans business by itself without the advantage of your other business?—A. Yes, if ye were operating a personal loans department by itself in each branch without central supervision the cost of operating that personal loans business in one branch would be prohibitive.

Q. It would be prohibitive. When you say "prohibitive" you mean it might be prohibitive at the rate of 10.46 per cent?—A. At our present rate of interest.

Mr. CRESTOHL: Thank you very much.

By Mr. Henderson:

Q. What does the average chattel mortgage cost?—A. Two dollars for registration fee.

Q. Is there any additional charge?—A. There is no additional charge.

By Mr. Cameron (Nanaimo):

A. You mentioned just now that there had been a slight increase in your personal loans business over the last two years. Could you hazard any guess as to the amount of that increase?—A. I do not think I could. This might be a little helpful: in 1955 at the end of the fiscal year the amount outstanding was roughly \$24 million; in 1954 it was \$20 million.

Q. That is an increase of \$4 million in one year?—A. Yes.

Q. That appears to be a much smaller rate of increase than the rate of increase in the business done by the small loans companies from whom we have heard evidence.

The CHAIRMAN: What were the rates of increases in small loans. Do you remember? That is a 20 per cent increase.

Mr. CAMERON (Nanaimo): I think it was higher than that, if I recall it—perhaps Mr. MacGregor could give us that figure off-hand.

Mr. K. R. MACGREGOR, (*Superintendent of Insurance*): Speaking from memory there was no substantial increase at all in the outstanding balances of loans of \$500 or less between the end of 1954 and the end of 1955. Over the five year period from the end of 1950 to the end of 1955, small loans balances, if I remember correctly, increased by 52 per cent but large loans balances by 352 per cent.

By Mr. Cameron (Nanaimo):

Q. What Mr. MacGregor has described as large loans balances would come, many of them, within your definition of personal loans?—A. The figures I quoted are not confined to loans under \$500.

Q. So you would agree that the rate of increase in your personal loans department has been substantially less than these small loans companies?—A. I do not agree with that.

The CHAIRMAN: Remember, the figures which Mr. MacGregor quoted were over a five year period.

By Mr. Cameron (Nanaimo):

Q. Have you any figures for a five year period?—A. I have not.

Q. What I had in mind in asking these questions was this: I wanted to know whether your business was increasing in the way the other small loans businesses are increasing, and, if not, what would be the reason?—A. I am afraid I cannot provide that information for you. We watch our own figures pretty closely but we do not actually try to keep pace with competitors.

By Mr. Fleming:

Q. Does the effective rate of charge to the borrower continue at 10.46 per cent, as was the case two years ago?—A. Yes.

By Mr. Philpott:

Q. Have you any idea why a potential borrower in a typical town, where there is a branch of the Bank of Commerce and also several of these small loans companies, often chooses to go to the small loans company and pay a rate of about 26 per cent when he could go to your bank and get a rate of 10.46 per cent? What motivates a borrower to do this?—A. I can only hazard a guess. We do not, perhaps, advertise as aggressively as some of the small loans companies. It may be, also, that the borrowers have formed a pattern, a habit, and prefer to go there.

Q. Is it your experience that some people are still more or less afraid of the banks?—A. I would think not.

Q. You do not find that they are shy, and think there is too much formality at the bank?—A. I think that feeling disappeared 25 years ago.

By Mr. Follwell:

Q. Mr. McPhail, you indicated that you are charging a very reasonable fee for insurance on \$100 lent for a year and paid back in monthly instalments. How do you handle that insurance? Does your bank make this charge and assume the insurance risk itself or does it purchase group insurance?—A. We purchase insurance from one or more of the insurance companies under a group life plan.

Q. Do you charge the borrower the same price that it costs you to buy the insurance?—A. We try to keep it in line with our actual cost. As a matter of fact we adjust the charge from time to time in order to keep it in line.

Q. You have indicated to Mr. Fleming that the Bank of Commerce is still operating an effective rate of 10·46 per cent for what I think you call personal loans?—A. We call them personal loans.

Q. And the other banks, through Mr. Nicks, indicated that you are the only bank operating in this particular field at that rate. Do you feel that a borrower in securing a loan from you at 10·46 per cent rather than at six per cent from any other source is being "gouged"?—A. No, we do not think so.

Q. Do you take chattel mortgages on your personal loans?—A. Not on all of them. We do take chattel mortgages.

Q. You do on some. I wonder if you would mind telling the committee the approximate number of loans on which you do take chattel mortgages.—A. Bearing in mind that we have only been taking chattel mortgages during the last 18 months, I would say it probably ranges between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent.

Q. It is very, very limited?—A. Very small.

Q. There was some discussion this morning—you were present yourself, and you heard it—in the course of which the opinion was expressed by some members of this committee that the banks could do a much wider lending business if they would permit themselves a little more scope in taking chattel mortgages. Do you agree with that?—A. Would you repeat that question—I did not quite follow it.

Q. In your opinion would the banks lend more money if they felt they could do so by making a wider use of chattel mortgage security?—A. Speaking for myself—and speaking for my bank—I think I can say that no one is turned down because he does not give, or we do not take chattel mortgage security.

Q. What security do you take?—A. The only other security we can take is a co-signature or guarantor.

Q. Do you require a co-signer on all your personal loans?—A. Not necessarily. We have loans on which there is only the primary borrower's signature.

Q. Can you tell the committee the percentage of loans on which you required the signature of the borrower only and the percentage on which you required either a co-signer or a chattel mortgage.—A. I think that was in the 1954 brief.

Q. I cannot remember that brief, to be honest with you, but you being a banker and having a good memory for figures, presumably could.—A. Speaking from memory, then—and I am afraid I will have to do that—I would say that around 40 or 50 per cent is one-name paper.

Mr. CAMERON (Nanaimo): I believe Mr. McKinnon told us it was 40 per cent.

By Mr. Knight:

Q. By "one-name paper" I presume is meant a document which bears only the signature of the borrower?—A. One signature only.

The CHAIRMAN: Do you take the signature of the wife where the borrower is a married person, in addition?

The WITNESS: Not always.

The CHAIRMAN: Usually?

The WITNESS: I would not even say usually.

By Mr. Follwell:

Q. Could you tell the committee whether the Bank of Commerce has found it necessary to seize chattels offered as security by borrowers?—A. You are talking of chattel mortgage security? Not one such case has come to my attention, and I think I would know about it.

Q. Then you are saying that on chattel mortgages you have never thought it necessary to seize the chattels and sell them off?—A. That is right.

By Mr. Cameron (Nanaimo):

Q. Mr. McPhail, you were here I think this morning when Mr. Nicks was giving his evidence. He told us about the small loans which his bank makes. Does your bank also make that type of loan in addition to your personal loans service?—A. Yes. Any loans which are on an instalment basis, unless independently secured, would find their way into our personal loans department; but in addition to that we do make loans where we are satisfied as to the resources of the borrower which are put into our ordinary branch books.

Q. And they would bear something like 6 per cent?—A. Up to 6 per cent.

Q. Could you give us any idea of how the number of those in that category would compare with your personal loans service?—A. I am afraid I do not have that information here.

By the Chairman:

Q. I was a little confused myself by the question Mr. Crestohl asked and I was not sure whether I gathered from that that all your personal loans business is done from the head office, or do you do it right in the local branch?—

A. It is done at the branch level. The applications are made at the branch level and referred through our regional departments to the head office. They have to be approved at the head office or in the regional departments?—

Q. What would be the average length of time that it would take a borrower applying to you to receive the loan?—A. Within certain limitations, our branches have authority to make immediate loans.

Q. That would be up to what limit?

Mr. KNIGHT: I did not hear the answer.

The WITNESS: I said that, within certain limitations, the borrowers would get an immediate answer.

By the Chairman:

Q. That would be a dollar limitation?—A. Yes.

By Mr. Cameron (Nanaimo):

Q. What is the limitation?—A. It would be a dollar limitation varying from branch to branch.

By Mr. Crestohl:

Q. Mr. McPhail, would you tell us a little about the mechanics of obtaining the loan and the method of repayment. Does the borrower generally open some form of account with your bank through which he makes the weekly or monthly payments?—A. The answer to that is, yes, he does.

Q. So that you acquire new customers who open savings accounts in that fashion?—A. Our plan helps.

Q. What has been your experience as to the loss of these so-called newly acquired customers after they repay the loan?—A. No survey has been taken on that point, but speaking very practically my impression would be that those accounts stay with us.

Q. Those accounts stay with you and that, of course, becomes a pretty profitable source of business?—A. It is an additional account.

Q. An additional income to your bank which took its origin from your person loans operation?

By Mr. Holowach:

Q. I believe the witness mentioned that 9·12 per cent of all applications that are made for small loans are turned down. Have you any information to translate that percentage into actual figures?—A. No, I just have the percentage.

Q. With respect to life insurance, yesterday we heard a representative of the Niagara Finance Company tell us that part of the service which they provided is a life insurance policy with no extra charge to the borrower. Is it your opinion that if your bank provided such a service it would affect adversely the profit picture? It is a deductible expense for the company as far as income tax purposes are concerned?—A. Yes.

Q. In what way would that affect adversely the profit picture?—A. Our present level of profits would hardly permit us to absorb the charge for life insurance premiums.

Q. With respect to the life insurance premium that is imposed on the borrower, in the event of death does such premium protect the heirs from all liability with respect to that loan?—A. Yes. The amount of the insurance received discharges the obligation.

By Mr. Fleming:

Q. What is your impression as to how your credit standards compare with those applied by the small loans companies?—A. Well, Mr. Fleming, I do not know the credit standards which the small loans companies apply. I can only speak for our own.

Q. You are not in a position to make any comparison then?—A. No.

Q. Nor, I suppose, is your experience extensive enough for comment with respect to the people who may have been turned down by the small loans companies who came to you for a loan, or vice versa?—A. That could be. I do not think actually that it happens very often; but it could happen. It is conceivable.

By Mr. Follwell:

Q. Would you say that there were any other advantages accruing to the bank on the basis of your making a small loan to a borrower at 10·46 per cent? Would you say there were other advantages by reason of the fact that you would get a new account and probably encourage them to be thrifty and to deposit their money, which you could in turn loan and make money on?—A. Yes, it develops more contact with the public and I think the habit of saving engendered by the monthly deposits would encourage thrift on the part of the borrower.

Q. Then it would have those advantages. It would encourage thrift on the part of Canadians and it would provide the bank with funds to service other loans eventually and produce a profit for the bank?—A. That is correct.

Q. Your bank loans money to the small loans companies?—A. I would say yes, we do.

Q. I presume you would loan it at not over 6 per cent at any time?—A. That is the legal maximum.

The CHAIRMAN: Are there any other further questions, gentlemen? If not, we will go on to the next witness. Thank you, Mr. McPhail. I am sure the committee appreciates very much your having taken the trouble to come here.

The WITNESS: We are very glad to have had the opportunity.

The CHAIRMAN: I believe, Senator Vaillancourt, that your witness is Mr. Charron.

Senator VAILLANCOURT: Yes.

The CHAIRMAN: Mr. Charron is assistant secretary of La Fédération des Caisses Populaires Desjardins de Québec and he is going to present in French a bilingual brief which has been distributed to the members of the committee. He is to be questioned in French through an interpreter.

Senator VAILLANCOURT: No, Mr. Chairman. The witness will speak in English.

Mr. Paul Émile Charron, Assistant Secretary, La Fédération des Caisses Populaires Desjardins de Québec, called:

The WITNESS: Mr. Chairman and members of the committee, first I would like to thank the chairman of the Banking and Commerce Committee for giving us the opportunity of presenting to the members of the committee the points of view of La Fédération des Caisses Populaires Desjardins de Québec on Bill 51 to modify the Small Loans Act.

I represent here La Fédération des Caisses Populaires Desjardins de Québec which is composed of twelve hundred Caisses Populaires Desjardins with a total asset of \$450 million, with about 1,000,000 members, and outstanding loans in the amount of about \$200 million.

An objective study of the last annual reports of the Superintendent of Insurance for Canada on small loans companies and money-lenders licensed in Canada as well as the substantial profits they have realized resulting from a tendency of recent years in a rather heavy increase of loans exceeding \$500 which bring larger revenues than the small loans, prove beyond question the merits of the proposed amendments in the Bill 51 to modify the Small Loans Act.

As a matter of fact, close analysis of the last annual reports of the Superintendent of Insurance for Canada on small loans companies and licensed money-lenders operating under the Small Loans Act enacted by the parliament of Canada in 1939 shows that:

(1) the number of small loans have increased at an accelerated pace during these last years, due undoubtedly to the increase of the cost of living but also to the evolution of the commercial methods. The balance of the small loans of the small loans companies has increased from \$24,425,312 to \$76,948,705 from January 1, 1948, to December 31, 1954.

(2) a noteworthy trend has appeared these last years towards a relatively larger expansion of the operations in the irregular field of loans exceeding \$500 than in the regulated field of small loans of \$500 or less, as noted by Mr. K. R. MacGregor, Superintendent of Insurance for Canada, in his annual report on small loans companies and money-lenders for the year ending December 31, 1954. At December 31, 1951, the balance of the small loans of the small loans companies was \$61,133,863 and the balance of the loans exceeding \$500 was \$8,933,116, at December 31, 1954, the balance of the small loans was \$76,948,705 and the balance of the loans exceeding \$500 was \$28,535,748. The small loans company Personal Finance, for example, showed an increase in its small loans from \$7,250,850 to \$18,446,627 from 1951 to 1954, when its loans exceeding \$500 have increased from \$8,319,733 to \$27,161,733, during the same period. The small loans have more than doubled in volume and the loans of more than \$500 have more than tripled in the same period.

Mr. MacGregor mentioned also that the balance of the small loans of the small loans companies and of licensed money-lenders at the end of 1954 showed an increase of 15 per cent on the balance of the small loans at the end of 1952, when the increase in the balance of their loans exceeding \$500 for the same period has been of 76 per cent.

Their net revenues have increased appreciably with the increase of their total loans and with expenses proportionally less as the number of loans compared to the total amount of the loans granted was smaller in proportion.

The loans exceeding \$500 should benefit of a reduction of interest and charges since, on one hand, they don't generally entail heavier costs and, on the other hand, these loans bring more revenues in the form of interest, which increase naturally with larger loans. A loan of \$800 costs less than two loans of \$400 each; and, furthermore, a loan of \$800 brings a net revenue more than twice greater than a loan of \$400. Consequently the rate of interest or the charges should be less than on two \$400 loans, the other elements remaining the same.

Now, as noted by Mr. MacGregor, in his 1954 report published in November 1955, it is the general practice of the licensed money-lenders to charge the same rate of interest, i.e. 2 per cent per month or the equivalent, on the loans exceeding \$500 as on the small loans.

And it would seem also that the non licensed money-lenders, if not all of them at least a great proportion of them, proceed the same way, and there are even a certain number of them to charge on their loans amounts exceeding two per cent per month.

Then, small loans companies and licensed money-lenders should normally reduce their rate of interest or charges on the larger loans as some of them already do, because the costs do not increase with the size of the amounts of the loans.

After all, the operation costs are unquestionably smaller if the number of loans does not increase proportionally with the volume of loans. Furthermore, the interest collected increases with the volume of loans. Consequently the net profits are higher on loans exceeding \$500 than on loans of \$500 or less.

Household Finance Corporation of Canada, the oldest and the strongest small loans company (errors excepted) operating under the Small Loans Act has granted, in 1954, a total of 533,396 loans amounting to \$119,951,203. It has collected \$12,758,246 in revenues on these loans, the cost of which was \$6,859,689 and, in 1954, it has paid the sum of \$3,048,510 to its shareholders whose share capital subscribed and paid in cash was \$3,070,000 at December 31, 1954.

Mr. J. E. Levesque, manager in Quebec City for this company in a public course given in 1954 to the credit men in financial and business institutions, answering the question: is really the rate of 2 per cent per month equal to 24 per cent a year for the borrower, answered: "Not carefully that even with a charge of 2 per cent per month on the unpaid balance at the end of each month, we do not have \$24 in charges for a \$100 loan reimbursed in 12 monthly instalments. As a matter of fact, the charges on a \$100 loan reimbursed in 12 monthly payments, are only \$13.52 and not \$24 as many would believe. And this is the only charge admitted by the act to cover interests, investigation, collection and administration fees, etc. If these expenses are deducted, the balance or the interest alone is not so exaggerated as the majority of people take pleasure in repeating. According to our statistics, the average cost of a loan is \$14.11. And as the interest on a \$100 loan is \$13.52 only, as stated previously, we would not show any profit if all our loans were for \$100 only. However, the average of our loans being approximately \$250 we show an average profit of \$18.96 for each loan:"

This data on the cost of small loans generally proves correct for the other small loans companies by the analysis of the operation costs of their respective financial statements listed in the report of the Superintendent of Insurance

for Canada. These informations allow to show clearly enough the large and exorbitant revenues realized by the small loans companies, particularly on their operations for loans exceeding \$500.

Personal Finance Company of Canada makes more revenues with loans exceeding \$500 than with loans of \$500 or less. In 1954, Personal Finance has shown a net profit of \$923,530 before deductions for income tax, on small loans operations, and of \$2,536,170.95 on the loans exceeding \$500. The expenses have been, proportionately speaking, much heavier on the small loans than on loans exceeding \$500. They were \$2,862,360 for the small loans which have brought a gross revenue of \$3,785,891, against \$3,192,631 of expenses for loans exceeding \$500 and bringing a gross revenue of \$5,728,802.

Therefore these figures show decisively the pressing necessity for the protection of those who will borrow from these small loans companies, that the Canadian parliament, which has jurisdiction in this matter, amend the Small Loans Act as follows:

(1) To increase to \$1,500 the limit of small loans, in order that all loans to that amount will now come under the said act.

(2) To reduce the charges with the size of the loans in agreement with the proposed amendment, as a protection for the small borrowers against unjust and unjustified charges.

Consumer credit has certainly become a necessity in our modern world. According to statistics of the Bank of Canada of April 1956, the consumer credit owing or, if you prefer, the debts on the form of consumer credit were \$2,193,000,000 at December 31, 1955, as compared with \$1,846,000,000 at December 31, 1954. The sales on current accounts have jumped from 22.7 to 23.4 per cent, and instalments sales from 11.9 to 13 per cent, from January 1, to December 31, 1955.

The consumer credit is not to be condemned in itself. It might bring some economic and social advantages. The problem consists in deciding upon (1) if the use that we make of it is fruitful, (2) and, if that use is obtainable at a fair cost.

These advantages of consumer credit should never be the cause to forget the inconveniences it carries.

How many people live in financial insecurity because of abuses of consumer credit. They have been snarled in the nets of noisy publicity which has brought them to take engagements pretended to be easy but which they were unable to meet. How many misfortunes it also brings to those unable to plan! How many are they who try to figure the interest they will have to pay for their purchases on credit! And if the heavy engagements taken will not be for them a cause of misgiving leading to their unhappiness.

More than half of sicknesses in United States, have maintained the American medical authorities, come from emotive and nervous troubles originated principally by financial insecurity and money problems. Perhaps it is the same thing in Canada, I do not know.

Too many of our people are unable to regulate their desires nor resist to lancinating sollicitation of a multiform publicity which brings them to confuse superfluity from necessary things, and in the end, they accept as normal to live beyond their means. Undoubtedly, this tendency to get into debt to obtain goods which are not always essential, necessary, is not exclusive to Canada and United States. The same tendency seems to exist in Europe. The "Courrier de Genève" pointed out recently that "the steadily increasing number of those who engage all their liquid assets and mortgage all their belongings by multiple engagements, even if they have to live with saveloys and potatoes."

The people become, under the pressure of commercial publicity, gradually enslaved to unlimited needs and they seek by all means, not always worthy of commendation and oftentimes expensive, to buy time and again, without caring to much of the happenings of tomorrow. The wife will have to resign herself sometimes to go out of her home to add to her husband's salary now too small to meet the financial engagements. It is the happiness, the peace of home which is badly menaced. Too many facilities of consumer credit are a cause of trouble in many homes. The social workers well acquainted with family problems are well in position to confirm it. The education of children is sometimes tragically lacking because of these troubles. Would you not believe this to be one of the causes of juvenile delinquency?

Would it be exaggerated to say that a great number of Canadians have mortgaged their future somewhat excessively by purchasing on the instalment plan. This system induces people to reckon on a future which may not turn out as they expect, and to build up hopes which may prove to be nothing but optical illusions to be followed by disappointment and a rude awakening.

We might be considerably surprised if we were to find out the losses sustained over the past few years by people who through lack of moderation or bad reckoning have made too many purchases on time. Those who sell their goods on credit could tell us a thing or two in this connection.

Consumer credit may offer some immediate advantages for the individual and for the general economy, but attention must also be paid to the ill effects it may have on the economy of tomorrow. What would happen if every citizen by purchasing on credit, exhausted his purchasing power for several years to come? For buying on the instalment plan involves the future, indeed, the wages due tomorrow are already used up in payments on unpaid purchases. The purchasing power of each individual being limited, a more or less sudden contraction in sales might well occur one day, followed by a marked decrease in production and that tragic consequence for our economy, unemployment and the total collapse of the purchasing power of this country.

While the instalment plan may, on one hand, activate production and enable people to have a higher standard of living today, it may well, on the other hand, cause a catastrophe tomorrow if it is practised to excess.

To purchase on the instalment plan cannot be regarded as a way to effect savings on the pretext that the only difference resides in the fact that payments are made after acquisition and that it is simply a matter of delayed savings. It must be remembered that the money used to pay instalments has to be deducted from the overall income available for other expenses and that after such deduction what remains may very well be insufficient to meet such essential expenses as food, clothing and rent. Thus optical illusions and false hopes take the place of intelligent foresight.

Sales effected on the instalment plan carry very high rates of interest and those who resort to this system are usually the ones who can least afford it. Example: a man needs \$500 to purchase such and such an item and raises a loan at 2 per cent per month, i.e. 24 per cent per year. He has to pay back the loan at the rate of \$26.46 per month and in 24 months will have disbursed \$635.04; he will therefore have paid \$135.04 in interest. If the same man instead of raising a loan had proceeded to save by depositing \$5 a week or \$21.30 a month, with his Caisse populaire Desjardins, at the end of 24 months with the $2\frac{1}{2}$ per cent interest on his deposits which is capitalized every six months, he would have had \$522.

Let us suppose that he then proceeded to buy the \$500 item, being able to pay cash he might have obtained a 10 per cent rebate on it. Thus, with the \$32 interest on his deposits he would have economized \$82 with which he

could have bought something else, this was not the case when he raised the \$500 loan elsewhere. It is therefore apparent that savings increase the purchasing power of the individual.

Can it still be said that putting money aside restricts economic activity? On the contrary, savings increase that activity whereas easily obtained credit, of which excessive use is made, creates inflation and renders economic stability impossible to achieve. By borrowing \$500 at 2 per cent per month our man reduced his purchasing power by \$135.04, whereas if he had proceeded by means of savings he would have increased it.

Another point worthy of consideration is that when spending money they have managed to save, people endeavour to get essential articles for it and not useless ones which, sometimes, may even be harmful to them. It follows, therefore, that putting money aside influences production and steers it in the right direction.

In view of the alarming increase in consumers credit it is to be wondered whether the competent government authorities, whose responsibility it is to ensure economic stability to the best of their ability, should not institute regulations which would avoid abuse and thus protect our economy.

It occurs to us that it might be a good thing if the competent governments controlled sales on the instalment plan. Such essential items as refrigerators, stoves, washing machines, and sewing machines could be sold in this way on condition a certain down payment were made, whereas articles such as radios, television sets, etc., which, without being bad in themselves are to some extent luxuries, should call for a down payment of 50 per cent. This, in our opinion, would be one of the best ways to avoid or at least to control inflation.

If the sellers were compelled by law to demand from everybody a substantial amount as first payment when the sale is made, the purchasers would be incited to save, every week, a few dollars out of their salary to purchase in the future whatever they need. They would learn to practise thrift, they would train to save, they would learn the value of money, they would contract the good habit of thinking before spending, of purchasing only necessary and useful things, and they would avoid financial obligations exceeding their capacity of payment, and living within their means, they would be protected from misgivings and concern of those unable to resist the pressing solicitation of publicity which show them everything so easy and pleasant.

What beneficent influence can small loans companies have or exercise for the good orientation of homes and the sound education of consumers confronted by these problems of consumer credit, the solution of which lies in the proper balance of the budgets in homes and a standard of living based on the revenues of each family.

What can the small loans companies effectively do for the education of families to foresight, thrift and saving? What interest, as a matter of fact, can the small loans companies find in that assistance on the level of education and of moral and social security of families? What lesson can be had from that deplorable situation which the legislator wishes to correct by amending the Small Loans Act?

Lending money is no synonym to rendering service. Every loan sets a problem of reimbursement. Every loans bears, also interest which must be paid back with the capital. These facts are proved once again by the analysis of the financial reports of these last years by the small loans companies and the money-lenders, it is noted indeed that borrowers are getting deeper and deeper into debt and, moreover, the number of borrowers is increasing constantly.

We rather give our confidence to organizations which, not sacrificing the service for the profit, have a policy to grant loans limited to useful and advantageous purposes, reduce to a strict minimum the interest or charges on the loans, strive to guide the families in their administration, train them to foresight, thrift and saving.

Here is how the *Caisses Populaires Desjardins* devoted to that task understand and handle this problem of small loans.

During his lifetime the founder of the *Caisses Populaires*, Commander Alphonse Desjardins, always maintained—and we still adhere to his principles—that credit should be made available to those who need it but only for productive or advantageous purposes, in other words, loans should never be granted for frivolous or futile purposes which quite frequently place the borrower in a precarious situation. For instance, a *Caisse Populaire Desjardins* would never grant a loan for the purpose of taking a trip, for, if the applicant has not been able to save up the money he needs, how could he reimburse the loan? It would be quite a different matter, however, if the applicant had to travel for reasons of health.

Thus the *Caisses Populaires Desjardins* only grant loans for productive or advantageous purposes. A lot is being said about social security, but so long as there is no family security, that is, moral, material and housing security, it cannot be established. When the majority of families own their own homes, there will be a greater measure of security and fewer subversive ideas for those who own their home or a small piece of land want to defend and protect that house or land. When parents and children live in a house which is truly theirs, peace and harmony are more likely to reign.

To get around this difficulty, young people who feel unable to set aside on their own the \$5, \$10, or \$15 they must save in order to prepare for the future, authorize their employers to deduct the amount from their wages and deposit it on their behalf with their *Caisse Populaire Desjardins*.

The *Caisses Populaires Desjardins* have a loans' policy which both allows and encourages their members to save. They insist on small regular payments on loans granted and thus prompt the borrowers to exercise foresight and economy and to budget wisely in order to set aside the money which will enable them to refund their loans gradually. They thus make it possible for our people to free themselves systematically of debt because they compel them as it were, to keep things in order, to be discriminating in their spending and to be moderate in their way of living in order to put money aside to pay off their debts.

The *Caisses Populaires Desjardins* know that debts are either paid off little by little or not at all. For most people this undertaking to make small regular payments on their loans is the only way to free themselves of debt, they refund their loans little by little, otherwise they are never refunded; they have to think ahead and take the necessary measures to set money aside to settle their debts little by little.

In addition to helping our people to free themselves of debt, the *Caisses Populaires Desjardins* enable them to effect appreciable savings thanks to their method of calculating interest on the balance due on loans, they do not make people pay interest on the total amount loaned over the entire period of time for which it is lent as do certain financial institutions on their so-called popular loans; these institutions deduct interest on the total amount of a loan at the time the money is handed to the borrower.

The Caisse Populaires Desjardins loans \$100 at 6 per cent, refundable in one year at the rate of \$8.34 per month. The interest paid by the member on that loan is as follows:

January	\$100.00	at 6 per cent for 1 month....	\$0.50
February	91.66	" " " "	0.46
March	83.33	" " " "	0.42
April	74.98	" " " "	0.33
May	66.64	" " " "	0.34
June	58.31	" " " "	0.30
July	49.38	" " " "	0.25
August	41.65	" " " "	0.21
September	33.33	" " " "	0.17
October	29.99	" " " "	0.13
November	16.66	" " " "	0.09
December	8.33	" " " "	0.05
Total.....			\$3.30

He receives \$100 from his Caisse Populaire Desjardins and pays \$3.30 in interest. The Caisse Populaire Desjardins does not hand him \$94 instead of \$100 as other institutions do for their so-called popular loans, saying to the borrower: we have deducted the 6 per cent interest you have to pay on your loan, so here are your \$94 and the interest is paid. Thus the borrower receives \$94 on a \$100 loan. The Caisse Populaire Desjardins, on the contrary, hands the borrower his \$100 and enables him to economize \$2.70 on the interest.

You will realize the economy which the Caisses Populaires Desjardins, who have so far loaned over a billion dollars, have enabled their members to realize while giving them at the same time a rate of interest on their savings deposits which in itself represents an appreciable economy. This was rendered possible by cooperation and, needless to say, by the efficient administration of the Caisses Populaires Desjardins.

The economy in interest realized on a loan granted by a Caisse Populaire Desjardins becomes even more apparent when one compares the interest charged by the Caisses Populaires Desjardins and that of finance companies whose interest on loans varies between 20 and 24 per cent. The interest paid on a loan of \$500 granted by a finance company, with monthly payments of \$26.46 over a period of 24 months, exceeds by \$100 that paid on a similar loan of \$500 granted by a Caisse Populaire Desjardins with monthly payments of \$22.17 over the same period of time. In the first case the interest charged is \$135.04, and in the second \$32.08. Thus the economy realized on a loan of \$500 is \$102.96.

The Caisses Populaires Desjardins are savings cooperatives in order to serve as loan cooperatives. As they are organized by people who are "weak financially" to meet their credit requirements, their first concern is, of course, to meet requests for small loans. A study of the loans effected by our Caisses Populaires in 1953 reveals that the average personal short-term loan was of \$390 and the average loan on property, \$2,810.

The Caisses Populaires Desjardins have made 93,926 loans in 1953 for total amount of \$77,100,000.

76,701 loans were inferior to \$1,000.

72,749 loans were personal, and were distributed as follows as to their amount.

12,666 loans inferior to \$99.99.

16,637 loans from \$100 to \$199.99.

30,014 loans from \$200 to \$499.99.

13,432 loans from \$500 to \$999.99.

The Caisses Populaires Desjardins encourage their members to accumulate savings for specific objectives.

The regular practice of savings show to the Caisse Populaire that the borrower can reasonably purchase such and such an article which is necessary or useful to him. La Caisse Populaire can loan him the amount he needs; it only comes to complete by a loan what is missing to the borrower to buy "cash" a stove, a sewing machine, a washing machine, a refrigerator, etc.

Knowing their members well, the Caisses Populaires Desjardins are particularly apt to guide them soundly in the administration of homes, to educate their members, to incite them to act with discrimination in meeting their desires, not to confuse the superfluous with the necessary or useful things, to budget their expenses, and to adopt a standard of living based on their revenues.

Les Caisses Populaires Desjardins make that education because they are devoted to the service of their members and they understand its necessity. That is why they must know, before granting such and such a loan for the purchase of such and such an article necessary or useful to family life, if the proposed loan will be really useful to the borrower and if the obligation the borrower desires to assume is proportioned to his revenues and if such a loan is really opportune or pertinent to the happiness of his home.

This is how the Caisses Populaires Desjardins help the families of their members to utilize credit soundly and profitably.

The CHAIRMAN: Thank you very much, Mr. Charron. This is more than a brief; this is also a sermon!

The WITNESS: No, it is a principle; a sound principle.

Mr. CAMERON (*Nanaimo*): Before we adjourn, Mr. Chairman, I would like on my behalf and I think on behalf of many of the members, to thank Mr. Charron for his consideration of those of us who are unilingual in reading the brief to us in English.

The CHAIRMAN: Gentlemen, it is practically 5.30. I suggest that we meet again at 8.15. You may then ask Mr. Charron any questions which you wish to ask.

If we finish with Mr. Charron tonight perhaps we could get on with the bill.

EVENING SESSION

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Are there some questions which you wish to put to Mr. Charron?

Mr. Paul Emile Charron, Assistant Secretary, La Fédération des Caisses Populaires Desjardins of Québec, recalled:

By Mr. Monteith:

Q. I have a very elementary question, no doubt, but in the first paragraph on page 4 of his brief, Mr. Charron says:

The sales on current accounts have jumped from 22.7 to 23.4 per cent...

The CHAIRMAN: What paragraph is that?

Mr. MONTEITH: The last sentence in the first paragraph on page 4 which reads as follows:

The sales on current accounts have jumped from 22·7 to 23·4 per cent...

Does that simply mean cash sales, sales for immediate cash?—A. Current account.

Q. You mean cash sales?—A. Yes, cash sales.

Q. Thank you.

The CHAIRMAN: Are there any further questions? I begin to suspect that some of you do not want to work on Saturday!

Mr. MONTEITH: You would not be thinking of yourself?

The CHAIRMAN: Yes, I would include myself. If there are no further questions we shall move on to the bill. But first of all—

Mr. FULTON: Is Mr. MacGregor going to be asked to make any reply to the representations that have been made?

The CHAIRMAN: That has not been considered by the steering committee at all. It was never raised.

Mr. FULTON: Who would raise it?

The CHAIRMAN: It would be up to the committee. I am only the chairman here.

Mr. ENFIELD: Let us get on to the bill.

Mr. CAMERON (*Nanaimo*): Have you talked to Mr. MacGregor to see if he would like to?

Senator VAILLANCOURT: This brief is not directed against any organization or anybody. We try to build something for the workers, the labourers and the poor people. I have been connected with the Caisses Populaires for 50 years. I know some ordinary classes of labouring people and farmers and I have been connected with a social organization for 40 years. I have the direction in my locality, in my town, of this problem of trying to help people and trying to educate them. It is very hard to educate people especially adults. That is the reason why we are working with young people in the schools, to educate them in the schools and after that to be better men.

Last winter in the city of Levis, where I am president of a social organization designed to help poor people during the wintertime, we were obliged to furnish food, fuel, clothing, rent and so on to 17 families which numbered more than 100 people; and of those 17 families, 12 were engaged with small loans from \$15 a week up to \$37.50 a week.

When we were furnishing food, fuel, clothing, remedies, milk and so on, to those families, they were obliged to pay to the finance organizations between \$15 and \$37.50 per week. This charitable organization did its best to pay for them. But the trouble is that people are influenced by the advertisements when they look at a television screen, or listen to the radio, or look at the newspapers. They are led to consume today and to pay for it the day after; and when these people are obliged to put their hands in their pockets and bring out some money at a time when they are not able to do so, then the situation which arises is very, very, bad.

I think the solution, if it is possible to arrive at a solution, is not only to decrease the interest rate alone, but to oblige people to pay a down payment of 15, 20, 25 or 30 per cent first; on luxury or unessential articles.

Among the families we helped last winter, some were in very bad shape. Here is an example: One of these families, 13 months earlier, had bought a baby carriage for \$99, which was pretty expensive; and after 13 months they

were supposed to pay \$3 a week. All during the wintertime and the season when they became hard up, they were not able to pay that \$3 a week. Yet they received a letter from a lawyer to the effect that they must pay so much and so on—and the fee for the letter was \$10; plus 10 or 15 per cent for the collection and so on.

This man became discouraged and he came back to us; and the situation was that all the family was in very bad shape. I went to visit this family to investigate the situation. The mother was very badly deficient and she was in another kind of deficiency; if these people had been obliged to pay \$10 before undertaking to purchase this luxury carriage,—I have never paid more than \$40 or \$30 for a child's carriage, they would not have bought a carriage for \$99, probably. This is a kind of education needed, and I think it would save the situation, because we are now in an inflation. It is unnecessary to ask if inflation is forthcoming, because we are already in an inflation; and in 1929 if you remember it, the situation was practically the same—not exactly the same, because now we do have some social organizations to prevent what happened in 1929. It is not necessary to give us a law as in 1929, but after that if we are to build a prosperous country it is necessary to start at the bottom with the education of young people, and to organize, and to build better organizations for tomorrow than we have today; I submit that it is necessary to do it today.

By Mr. Follwell:

Q. Is the senator prepared to answer questions? If so, I have one or two little questions I would like to ask him. Do they make loans only to members of the Caisses Populaires?—A. Yes, only to members.

Q. Could you tell the committee what the qualifications are for membership in the Caisses Populaires?—A. It is necessary to be an honest citizen.

Q. Are you suggesting that there are Canadians who are not honest?—A. Surely!

Senator VAILLANCOURT: We are not 100 per cent perfect!

Mr. FOLLWELL: I am sorry but I did not hear it.

Senator VAILLANCOURT: The first qualification is honesty, because honesty is the best policy!

Mr. FOLLWELL: I am rather inclined to agree with you. We all learned that rule long ago; but you must have other qualifications for membership. How do you go about it?

Senator VAILLANCOURT: You pay \$5 for a share, plus 10 per cent for fees.

Mr. FOLLWELL: Do the same qualifications apply to the Caisses Populaires that apply to the credit unions?

Senator VAILLANCOURT: Practically the same.

Mr. FOLLWELL: Is there any relationship between the amount of money that a member can borrow as related to the number of shares that he has?

Senator VAILLANCOURT: There is no relationship.

Mr. FOLLWELL: You say in your brief on page 2 in the fourth paragraph:

And it would seem also that the non-licensed money-lenders, if not all of them at least a great proportion of them, proceeds the same way, and there are even a certain number of them to charge on their loans amounts exceeding 2 per cent per month.

I wondered if you could tell the committee how many of the non-licensed money-lenders charge over 2 per cent per month, and who they are?

Mr. CRESTOHL: How could he know that?

Senator VAILLANCOURT: We cannot answer that.

Mr. FOLLWELL: Well, you made the statement and I wondered what was the reason you made that statement.

Senator VAILLANCOURT: Because we have received new members into the Caisses Populaires many times who asked us for loans and we always investigate first: "Have you any loans in any place?" And they answer. Sometimes they say, "Yes, we have; we have a loan with such and such an organization and so on; and we have been obliged to pay for \$1,000, \$500 commission plus 2 per cent."

Mr. FOLLWELL: You are saying that your members have told you that?

Senator VAILLANCOURT: Yes, but we have many.

Mr. FOLLWELL: You have it by word of mouth that that has happened?

Senator VAILLANCOURT: Yes.

Mr. FOLLWELL: And that is all?

Senator VAILLANCOURT: Yes.

Mr. FOLLWELL: All right, so long as we understand it.

Senator VAILLANCOURT: We have not the figures.

Mr. FOLLWELL: We congratulate you upon the preparation of your brief. I see that at page 7 in your brief, the fourth paragraph, you say this:

What beneficial influence small loans companies do have or can exercise for the good orientation of homes and the sound education of consumers confronted by these problems of consumer credit the solution of which lies in the proper balance of the budgets in homes and a standard of living based on the revenues of each family.

And then you go along from there and you say:

What can the small loans companies effectively do for the education of families to foresight, thrift and saving? What interest, as a matter of fact, can the small loans companies find in that assistance on the level of education and of moral and social security of families? What lesson can be had from that deplorable situation which the legislator wishes to correct by amending the Small Loans Act?

Mr. FLEMING: Is it necessary to read the brief all over again, Mr. Chairman?

Mr. FOLLWELL: No, but there are other things that I would like to call to the attention of Senator Vaillancourt, here.

Mr. FLEMING: Yes, by way of questions; but we have heard the brief.

Mr. FOLLWELL: All right. If I was as efficient in French as the witness is in English, I would not be reading this in English.

Senator VAILLANCOURT: We will be very happy—

Mr. FOLLWELL: You said in several places in your brief that you do a great deal of helping your people to manage their affairs?

Senator VAILLANCOURT: Yes.

Mr. FOLLWELL: It was indicated that some of the small loans companies have budget material and tell their people what to do.

Senator VAILLANCOURT: Yes?

Mr. FOLLWELL: What do you do?

Senator VAILLANCOURT: We would be very happy if the small loans companies would do the same as Caisses Populaires. If a man asks for \$500 or \$300 from Caisses Populaires, we ask him this: "What reason do you want it for? Why do you want this money? What is your salary?" And 50 per cent of the time we are obliged to organize a budget for these people.

We will say, "You receive \$50—or \$60 or \$70—per week, and you are obliged to pay so much for rent, and so much for insurance, and so much for other things, and so on, and so on—and so much for food. Can you pay to the *Caisses Populaires* this amount of money?"

Ordinarily these people never realize what they spend. Every week they collect perhaps \$50 or \$60 or \$70 or \$100, and that is all they know about it. At the end of the year, for example—I will give you a simple example in this way: one person came to my office and asked for a hundred dollars. That was about 1932, in the days of the depression. The month before that his salary had been cut to the extent of \$100 a year. In the year 1934 this man was receiving \$100 per week, that is \$1,300 per year.

MR. KNIGHT: You mean "per month", do you not?

Senator VAILLANCOURT: Yes, per month, yes; I should say that he was receiving \$25 per week. By the end of the year he would receive \$1,300. In the beginning of 1932 the company advised him that he would be paid on a monthly basis, at the rate of \$100 per month, or \$1,200 per year. And he said, "This is too bad for me, it is too tight for me." Anyway we discussed the situation with the wife and the husband. And then, do you know what the result was? It was not necessary to borrow the \$100. At the end of it all I said, "Do you remember when you came to see me as a young boy; do you remember that during the evening we took the pipe and smoking tobacco to my father—*tabac Canadien*?" But I said to him, "Now, you smoke more than \$2 worth a week, cigarettes. Just go back five years ago and use the same system, and we will arrive at exactly the same situation." Two dollars a week for 52 weeks makes \$104; that is all.

You know, it is not necessary to arrive at a great principle and a great speech, and so on. Just discuss the problem with him; and if the small loans industry could do the same thing many of their troubles would be settled individually. Let them organize their budgeting, because that is the method we use. And I think the small loans industry could do the same thing.

MR. FOLLWELL: Do you require any endorsers on personal loans, for security?

Senator VAILLANCOURT: Sometimes; it all depends upon who the borrower is. To some borrowers we cannot furnish a penny without an endorsement, and to others you could furnish a thousand dollars; that is just the difference. It all depends on what the situation of the man is, and the morals of the man.

MR. CRESTOHL: Do you insure loans?

Senator VAILLANCOURT: Yes, all the loans are insured for \$10,000.

MR. BENIDICKSON: How much does that cost?

Senator VAILLANCOURT: To the borrowers, 6 cents per \$100 per month. That is \$7.20 per \$1,000 per annum. Supposing they borrow \$1,000, and the first month they refund \$100, the next premium is less. But at the end of the year we divide the profits, after all the expenses and the reserves have been taken care of.

MR. FOLLWELL: Do you have a fair-sized amount of your total loans on real estate, mortgages?

Senator VAILLANCOURT: Yes, oh yes; we have mortgages—last December on mortgages we had \$162 million—and \$34 million on notes.

MR. FOLLWELL: What rate do you charge on a real state mortgage?

Senator VAILLANCOURT: On a mortgage it falls between 5 and 6 per cent. It all depends upon the size of the revenue of the local *Caisse Populaire*.

MR. FOLLWELL: What would be the largest loan you have on your books?

Senator VAILLANCOURT: Ordinarily, not more than \$10,000 or \$15,000, because we try to help our members to build their homes—not large buildings. We prefer to divide all our borrowings up among all our members. I suppose some people will ask us for \$50,000 for a large building with four or five stories, and they would receive the same treatment. We prefer to give a loan to five members of \$10,000 each, instead of \$50,000 to one member.

Mr. CRESTOHL: You have a paid staff all the year round?

Senator VAILLANCOURT: Yes, but the directors are not paid.

Mr. HOLOWACH: Do you acquire outside funds from lending institutions?

Senator VAILLANCOURT: No.

Mr. HOLOWACH: Or do you have capital to finance your undertakings?

Senator VAILLANCOURT: We have total assets of \$450 million and we have 50 per cent of the total assets practically liquid on cash or on debentures—bonds—federal and provincial government or municipal government bonds.

Mr. HOLOWACH: You have no need of borrowing, then?

Senator VAILLANCOURT: No.

Mr. CRESTOHL: As a matter of fact do you ever approach the banks to borrow cash and place with the banks as collateral, some of those bonds as securities that you have?

Senator VAILLANCOURT: In the past, yes—but not now because we have our own central organization and we receive surplus from all the Caisses Populaires.

Mr. LUSBY: Do you make loans on what we might call humanitarian considerations, even when as a risk it may not look good? You say somewhere in your brief that your organization would not lend money for a pleasure trip. But if a man had to travel for his health, it would be a different matter, would it?

Senator VAILLANCOURT: Yes. It seems to me that the man who had to travel for his health might be even a poorer repayment risk than the man who travelled for pleasure.

Mr. LUSBY: Well that is another matter.

Mr. CRESTOHL: Insurance covers him.

Mr. FULTON: You spoke of the rates you are able to give to your borrowers with respect to insured loans. Do you have a related insurance company?

Senator VAILLANCOURT: We have our own insurance company.

Mr. FULTON: And you are a director of that insurance company?

Senator VAILLANCOURT: Yes, we have our own insurance.

Mr. FULTON: And you are also a director of a couple of other companies down in Quebec?

Senator VAILLANCOURT: Yes.

Mr. FULTON: And you are a man of some influence in Quebec, are you not?

Senator VAILLANCOURT: Oh no, no!

Mr. FULTON: I think I heard you say at some point that you had knowledge of a case where a debtor had received a letter from a lawyer in which the lawyer said that it would cost him \$10 for that letter?

Senator VAILLANCOURT: Yes.

Mr. FULTON: Did you report that to the bar society?

Senator VAILLANCOURT: No.

Mr. FULTON: You did not?

Senator VAILLANCOURT: No.

Mr. FULTON: Do you think that was proper practice?

Senator VAILLANCOURT: But we have fixed all this, we have fixed it with the lawyers and with the company in the best way possible.

Mr. FULTON: A special arrangement, eh?

Senator VAILLANCOURT: Just the right treatment.

Mr. KNIGHT: It would be correct to say that you are actually not running a business, at all, in the real sense of the term? You are applying the principles of co-operation to the credit business?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: Is that just about a definition of the work you are doing?

Senator VAILLANCOURT: Would you repeat that, please?

Mr. KNIGHT: What I want to get at is this, that I notice some of my colleagues think that these are strange businesses that we are hearing about—Caisses Populaires and Credit Unions. My question was this; is it not a fact that you are looking at this thing, this supplying of credit, as a social obligation to help people—first of all in the matter of thrift, to do things for themselves?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: And, secondly, that you are actually applying simply co-operative principles to the question of the supplying of credit, is that a fair statement to make? What you are is an immense co-operative organization, where one person helps another person?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: And where the money that is being lent is supplied by the lenders, at times?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: Is it true that you, in your province, do as we do in ours—that you encourage people to make small payments into the Caisses Populaires when they are flush, when they have extra money?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: So that they can build up a little credit among their neighbours?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: And then encourage them, when they want to buy a washing machine or something else—you encourage them to wait and get a little money to make a substantial down-payment, and then they will receive cash from Caisses Populaires, or from a credit union, and they are able to have the advantage of cash in order to buy at a cheaper price?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: Is that the picture?

Senator VAILLANCOURT: Yes, that is the picture.

Mr. KNIGHT: That is our picture too.

Senator VAILLANCOURT: Yes.

Mr. CRESTOHL: I would like to ask another question.

Mr. TUCKER: Could I ask the Senator this: do you spend much in the way of advertising in the newspapers or in any other way?

Senator VAILLANCOURT: No, we spend practically nothing in newspaper advertising. We give so much service that that is fine advertising in itself.

Mr. TUCKER: You have not found it necessary to spend a lot of money in order to bring to the attention of the people of Quebec the fact that this service is available?

Senator VAILLANCOURT: Education comes first. If we go too fast we lose our ideal. On June 1, 1933 the total assets of the Caisses Populaires in Quebec were less than \$9 million. Now, after 35 years, they amount to \$450 million. That demonstrates good advertising.

Mr. CRESTOHL: Senator, can you tell us to what extent your organization is affected by income tax?

Senator VAILLANCOURT: No, because we refund all our benefits to the shareholders and they are supposed to pay the taxes as individuals. Except, of course, that we do pay the administration tax, school taxes and so on.

The CHAIRMAN: Are there any further questions, gentlemen? If not, you will probably recall that the committee did decide to hear Merchants Finance Limited. The president of the company is ill and cannot be here but he has suggested, as I understand it, that Mr. Cawker might make a brief statement on his behalf. I believe the statement will take about two or three minutes to make. If it is agreeable I think that is fair; it is really an answer to the point raised by Mr. MacGregor, as I understand it.

Mr. CRESTOHL: Have we yet decided whether Mr. MacGregor should have the opportunity of being heard again in rebuttal?

The CHAIRMAN: No. I do not think we are going to run this as a legal case, are we?

Mr. CRESTOHL: I am not suggesting we should.

The CHAIRMAN: I think we should get on to the bill after we hear this.

Mr. C. M. CAWKER (*President, Canadian Consumer Loan Association*): Mr. Chairman and members of the committee, I cannot say that I particularly relish this job. The president of Merchants Finance is ill, I understand. I only impose myself on your time for a few minutes in the interest of justice and nothing else.

Immediately after Mr. MacGregor's statement regarding the yield on a loan made by Merchants Finance, naturally, as president of the Canadian Consumer Loan Association, whether it fell within the scope of the act as it now stands or not, I felt it was something at least in the category of character and fitness and that it was my responsibility. Within hours I was in touch with the president of Merchants Finance. He has written a letter to the chairman which I believe is on file. I have a copy of that letter and I think it tells the story. But in case it has not come to the attention of the committee I think it would only be fair to state that the president of Merchants Finance reported to me on July 13 that he had talked to Mr. MacGregor, identified the account with regard to which this accusation was made and confirmed the name of the account. I do not think any purpose is to be served here by mentioning the name of the account. Mr. MacGregor told me that he had no knowledge whether a representative of the Department of Insurance had gone into the office of Merchants Finance and made any investigation and determined whether in fact the account had been paid off and this exorbitant sum realized. Of course, I then asked him if it was made on the assumption that this account had been paid off, and he agreed that it had. The fact of the matter is—and I do not think anything is to be gained, either by reading this letter which sets out the details of the case—this was a bad loan from the inception. It was made on real estate. There had been a search, an appraisal, and a mortgage registration. The important thing which I think the committee should know is that after two n.s.f. cheques on the first two payments—evidently, in the occasional case it happens—there was a disgruntled borrower who said: "How much to pay you off?" without a hope in the world of paying it off, and a rebate was quoted, I am told, "off the cuff". It was quite unrealistic but it was justified to

the superintendent in a letter by the firm's solicitor. The fact remains that the account is still on the books. It has not been paid off. There has been a very small figure realized and rather than yielding 80 or 85 per cent to Merchants Finance there is every indication in the world that there will be a write-off and a loss to the company. The present balance is, I am told, in the neighbourhood of \$1200.

I think the "crime" that this company has committed, if it can be called such, is including the legal cost of appraisal, registering the mortgage and all those things which trust companies, credit unions and other such lending organizations usually connected with real estate lending set aside as a separate charge, and with regard to which it is quite plain that the borrower pays the cost. For simplification and standardization I presume this company included it in the "all-up" per month charge. I think that might be a rather good idea for some other body to suggest to the trust companies and insurance companies, for then we could take a much more realistic view of just what it costs to borrow money from trusts and the respectable lending agencies. I have checked the returns of the Department of Insurance for 1954 and in the field under \$500 I find the following entries: chattels in possession at the close of the previous year—none; additional possession of chattels made in the current year—none; totals, none; partial payments on account, under the same heading, none; chattels sold, none; restoration of chattels in agreement with borrowers, none; chattels in possession at the end of this year (1954), none; totals, none.

Mr. Climans, the president, tells me that his salary is \$27,000 a year. He has been in business for a great number of years—something like 25 years, I believe. He operates a reasonably large business; not big in terms of the American companies but it is a private business with a comparatively small staff, and if I know anything about this business he works pretty hard. The dividends and directors' fees are a matter of public record and seem to me to be quite modest. I think that is, in essence, what Merchants Finance would like to say to this committee.

Mr. CAMERON (*Nanaimo*): Before you go, I notice that you have not mentioned the rate which was charged by Merchants Finance in connection with this.

Mr. CAWKER: This particular loan was a \$1,500 loan over a two year period, and the charge for two years, including registration of not only the chattel mortgage but also a third real estate mortgage was \$600, in other words, a \$2,100 contract for 24 months. But, to answer your question nothing, or an infinitesimal amount, has been charged so far because I do not think he is even going to get his principal back, let alone the interest.

However, I might mention that I have an audited statement over the signature of their auditors and it is an analysis of gross charges realized on loans over \$500 for the years 1950 to 1955, and it shows that their gross yield—and here I think is where they expose themselves to what I consider as most unfair interpretation of charges—including the fees and so on that go with it—their gross yield averaged, during the five years, 25·8 per cent, ranging from a low of 23·7 per cent to 30·2 per cent; and the company shows, as a percentage of net profit to capital employed, a figure of 11 per cent. The auditors have noted also that Mr. Climans personally guarantees a bank loan which has averaged about a quarter of a million dollars for the past six years.

The CHAIRMAN: Thank you, Mr. Cawker. Now, gentlemen, we shall get on with the consideration of the bill. Have you all got copies of the bill?

On subclause (1) of clause 1—"Cost".

The CHAIRMAN: This, as you will see from the underlined portion, proposes to include charges for life insurance, personal accident insurance or sickness

insurance within the cost of the loan. It is a definition clause. It will be recalled that Mr. Dunbar suggested an amendment to this. I do not pretend to be a great constitutional lawyer but it is very serious that we can only control any of those charges by bringing them under our interest jurisdiction and relating them to the cost in relation to the loan. I am advised that Mr. Varcoe considers this amendment to be unconstitutional and outside the federal powers, in other words *ultra vires*.

Mr. FULTON: Which amendment?

The CHAIRMAN: The amendment suggested by Mr. Dunbar the other day.

Mr. FULTON: Does Mr. Varcoe say why? If we can bring it in, why cannot we put it out? I am not speaking on the merits of the proposal. What an extraordinary opinion! If we can bring insurance rates in why cannot we put them out? Did Mr. Varcoe favour the committee with an opinion or just a statement?

The CHAIRMAN: I believe it is because they are attempting in the amendment to regulate the size of the insurance premium and that is considered to be a regulation of contract and not a regulation of interest, because the suggested amendment specifically refers to: "not in excess of 50 cents per \$100 per annum."

Mr. HENDERSON: Do you have that opinion of Mr. Varcoe on the record?

The CHAIRMAN: No. But I would be inclined to agree with him on that point.

Mr. FULTON: Do you know if there were any discussions between Mr. Varcoe and Mr. Dunbar who, I believe, said that he would make himself available?

The CHAIRMAN: I have no knowledge of that. I believe you, Mr. MacGregor, were talking to Mr. Varcoe.

Mr. MACGREGOR: Yes. I forwarded a copy of the proposed amendment to him and I saw him and discussed it with him this morning. Substantially his view was as you have expressed it.

Mr. CRESTOHL: Mr. Chairman, most of the witnesses who were here gave evidence that they do make a charge to the borrower for the premium for insuring the account. I think it might be discrimination if some people in the business of lending money are enabled to make such a charge and others in the same business of lending money should be legislated against with respect to the same right and privilege that other members have. To me it is a bit paradoxical to find that one law in that sort of thing is constitutional and that another one would be unconstitutional. Perhaps we can revise Mr. Dunbar's writing to bring it in line with the language used by those organizations which are permitted to charge. If the witnesses had disclosed to us exclusively that they do not charge premiums for insuring the loan, then, of course, that would be it.

The CHAIRMAN: Those other companies you referred to who are not prohibited never do this and, therefore, they can do what they want.

Mr. CRESTOHL: Then we should not legislate to prohibit those small companies and I think we should propose allowing them to enter into an arrangement which would allow them.

The CHAIRMAN: I believe Mr. MacGregor stated that Mr. Varcoe thought the present section would prohibit the charge of insurance premiums but to make absolutely sure he would suggest this amendment. Am I interpreting what you said correctly, Mr. MacGregor?

Mr. MACGREGOR: Yes and no, Mr. Chairman.

Mr. PHILPOTT: As a point of order: what clause are we on?

The CHAIRMAN: Subclause (1) of clause 1.

Mr. MACGREGOR: Mr. Chairman and members of the committee, the purpose of this proposed amendment to paragraph (a), the definition of cost of a loan, is to clarify the present law so as to make clear whether an extra charge for life insurance, or sickness and accident insurance, may be levied against the borrower in addition to the maximum permissible charge. There is a little uncertainty about it at the present time. I think it can be expected that if the maximum permissible rates are reduced some lenders may be inclined to make insurance arrangements at additional expense to the borrower in order either to supplement the lender's profits to some extent or at least to enhance the security of the lender.

Up to the present I must admit there has been no problem in that respect, mainly because where insurance arrangements have been made the lender has absorbed the cost. But for the reason I have just indicated, there is a possibility that abuse might develop and our reason for thinking so is that serious abuses in that respect have arisen in the U.S.A.

If the amendment proposed is made, of course, there is no doubt that the insurance charges are included in the definition and that the lender would have to absorb the cost. If the amendment is not made then some doubt will persist as to whether or not lenders may make insurance arrangements at additional cost to the borrowers. If they do, and do so at net cost to themselves, I would admit that no great harm is done, and that the borrower would get value for his money. That is the problem: to know whether lenders would abuse the provision of insurance to the borrowers who would bear the cost. At the very least it means that the borrower pays for the insurance and it enhances the security to the lender.

The CHAIRMAN: It is a mutual protection?

Mr. MACGREGOR: That is true. As an example, there would likely be a profit to the lender even if it were practical on constitutional grounds to make an amendment of the kind proposed yesterday for the purpose of limiting the charge for insurance. The charge proposed yesterday was 50 cents per \$100 initial amount of a loan repayable in twelve monthly instalments.

The CHAIRMAN: The maximum?

Mr. MACGREGOR: The maximum. Evidence was furnished by the representative of the credit unions that their insurance charge is 55 cents per \$1,000 of insurance per month, which is equivalent to about 35 cents compared to the 50 cents. Evidence was given this morning by the representative of the Canadian Bank of Commerce that their charge is about 20 cents. So, one can see the possibility of gain to the lenders if they could continue to charge the borrower the maximum under the act, as proposed yesterday, of 50 cents. There are, of course, dividends—or experience rating refunds as they are called—that the lender would receive.

The view has been expressed that other organizations do charge borrowers an additional amount for insurance. I think that Senator Vaillancourt a few moments ago mentioned in the case of the Caisses Populaires that the borrowers do pay for the insurance. He incidentally mentioned a premium of 60 cents per month per \$1000 which translated into the same terms would mean about 40 cents per \$100 of initial amount of loan.

Mr. ENFIELD: They have their own insurance company?

Mr. MACGREGOR: That is true. But, generally speaking, I think insurance charges are absorbed by the lender rather than by the borrower.

Yesterday Mr. Smith stated that the credit unions absorbed the cost in their case, and I know that that is the situation.

In the case of the personal savings scheme of the Bank of Nova Scotia, I know that bank also absorbs the cost. At the present time practically all of the licensed lenders that provide such insurance absorb the cost. In most of the states of the U.S.A. contiguous to Canada as, for example, New York, New Jersey, Connecticut, Ohio and Michigan, my understanding is that the lenders are not permitted to make an extra charge for life insurance.

Briefly, the purpose of the amendment is one of clarification. No problem exists at the present time in that respect. It remains to be seen what abuse, if any, may develop; perhaps none may.

Mr. ENFIELD: There will not be any abuse under this amendment because there will not be any insurance.

Mr. MACGREGOR: I might also mention this, that I think it is generally accepted that the corner-stone of good small loans legislation is to have one over-all maximum permissible charge. Life insurance arrangements have posed perhaps the greatest problem as an exception in this matter. For administrative purposes, it is of course desirable to have certainty. If the amendment is not made it means that lenders may, at their own discretion, make an additional charge for the life insurance, but whether abuses will develop remains to be seen. If they do we would have to deal with them as best we could to ensure that the lenders who make such arrangements do not make a profit to themselves by charging the borrowers more than the insurance costs them.

In the case of the Canadian Bank of Commerce, my understanding is that the insurance cost is charged against the borrower but that it is charged against the interest that is credited to the borrower on his instalments accumulating in his deposit account. However, their scheme is such a special one that I do not regard it as a precedent.

Mr. CRESTOHL: Should we not first determine whether or not the committee has the authority, constitutionally speaking, to adopt an amendment of that type? If we have, then we will proceed to deal with it. If we have not the authority, then we will simply have an academic discussion without any particular result.

The CHAIRMAN: Mr. Varcoe expressed the opinion that it is constitutional. This whole act has never been challenged and it is still debatable as to whether it is sound constitutionally. My own view—with some diffidence—is that it would be supported by the Supreme Court of Canada simply because they would recognize that it was within the national interest. That may sound like pretty odd law. If it had come to the Privy Council, I do not know what they would have done.

Mr. CRESTOHL: Do you rule that we can continue to discuss the amendment?

The CHAIRMAN: Yes. As I see it, the question is, if we are to legislate now on very low interest rates, by leaving this out, would it encourage the lenders to use this insurance to lend where perhaps they otherwise would not.

Mr. CAMERON (*Nanaimo*): I think that Mr. Crestohl is referring to Mr. Dunbar's suggested amendment.

Mr. CRESTOHL: Yes.

The CHAIRMAN: No. As far as Mr. Dunbar's suggested amendment is concerned, Mr. Varcoe has given it as his opinion that it is unconstitutional because it proposes to say "not in excess of 50 cents per annum".

Mr. FULTON: That is an odd opinion, because Mr. Varcoe when he was here said that we could legislate as to the interest rates and could set maximum interest charges. He also said that we could legislate as to insurance, as the bill proposes. Well, then, if we can legislate as to maximum interest charges,

and can define insurance as interest, why cannot we legislate as to maximum insurance charges? I am not impressed by Mr. Varcoe's opinion, which is only brought to us as hearsay.

Mr. ENFIELD: On a point of order; is Mr. Dunbar's suggested amendment at present before this committee?

The CHAIRMAN: No; it has never been moved.

Mr. REA: May I ask you a question, Mr. MacGregor? I think I know what you are referring to when you discuss insurance. Let us say that a lender gets insurance for \$8.40 per \$1,000 per year; now if he were to sell that insurance to his borrowers at \$10 or \$12 per thousand would that not put him in the category of being an insurance agent, and he would not be allowed to do it?

Mr. MACGREGOR: I do not think he would be regarded as an insurance agent if he were the holder of a group insurance policy.

Mr. REA: He would be making a profit on insurance and, whether it would be termed a commission or not, he would not have a licence to take a commission and he would have to pass it over to his borrowers at what he got it for, so he would not be in the category of a commission agent?

Mr. MACGREGOR: The insurance contract would be made between the insurance company and the lender.

Mr. REA: Yes, I realize that.

Mr. MACGREGOR: The position of the lender is that of a policy holder.

Mr. REA: But he is selling it at a higher cost to the borrower and he makes a profit on it, and that could be termed a commission, and he would not be allowed to do that because he is not licensed as an insurance agent.

Mr. MACGREGOR: I agree that some difficult questions do arise; but the policy could be written at a nominal premium and the lender may ask the borrower to pay that premium, and each year the lender may receive a dividend.

Mr. REA: He might get an "experience" rate.

Mr. MACGREGOR: Yes, and the result may be the same.

Mr. REA: The "experience" rating is not as high; and at least he would have some control. Because of the experience rating, he would have nothing to do with it.

Mr. MACGREGOR: Quite, and the average rate might vary a great deal depending on the size of the group, the size of the loans, and so on.

Mr. ENFIELD: The evidence indicated that Niagara Finance provided this type of insurance without extra charge to the borrower. But apart from that, the other companies were not taking out insurance on their loans. Can you say, or do you think, that the enhancement of using that insurance would outweigh the cost of the insurance that the company is going to have to pay if this clause is passed as it stands?

Mr. MACGREGOR: In other words, does the lender take out insurance solely for the additional security that he enjoys?

Mr. ENFIELD: That is right.

Mr. MACGREGOR: I think there are two main reasons why the lender takes it out: the first is that reason, and the other, the advertising value of it, I suppose.

Mr. ENFIELD: I am afraid that very few loans would be insured.

The CHAIRMAN: I think that Niagara Finance said that somewhere around 7 percent of the borrowers died during the terms of their contracts, and that

if they were to pay for the insurance for the other 93 per cent it would not pay them; they would lose money on it, just to get the 7 per cent covered, and it would not pay them.

Mr. MACGREGOR: There are 7 lenders that provide life insurance at no additional charge. The Niagara Company pays the entire cost; and there are six others: Trans Canada is another large lender which does so.

Mr. CRESTOHL: I was impressed with Mr. Dunbar's evidence and the thing which impressed me most was the optional feature in the proposal that the borrower would have the option of taking out life insurance on the loan or not. I think that is a creditable feature. I wrote down the amendment as he gave it to us and I had it retyped. I would not hesitate to move that proposed amendment if you would receive it on constitutional grounds notwithstanding Mr. Varcoe's opinion.

The CHAIRMAN: I cannot rule out an amendment if you want to make it; all I can do is to put it to the committee. It strikes me that if you are going to put an amendment which at least one legal mind has said is unconstitutional, it would be better to strike out the amendment in clause 1 and leave the law the way it is.

Mr. CAMERON (*Nanaimo*): This is Mr. Dunbar's amendment?

The CHAIRMAN: Yes, I mean, with all respect to Mr. Fulton, that lawyers have been known to disagree, and there is the possibility that this might be unconstitutional.

Mr. FULTON: Yes, there is that possibility!

The CHAIRMAN: I am not anxious to put unconstitutional law on the statute books. I would prefer to leave the section the way it is rather than to amend it.

Mr. FULTON: Hear, hear!

Mr. PHILPOTT: Would that mean the deletion of the whole of clause 1?

The CHAIRMAN: No, not exactly.

Mr. PHILPOTT: Clause 1 paragraph 1?

The CHAIRMAN: No, there are some other features. These words have been added "in relation to the above" and so on. It would eliminate, I would suggest, from "renewals" on, would it not? Mr. MacGregor suggests that since there are no substantive changes in the clause in respect to insurance, if we are to drop the insurance feature we just eliminate paragraph 1 subclause 1 entirely.

Mr. PHILPOTT: Well then, I so move.

The CHAIRMAN: All those in favour of deleting subclause (1) of clause 1 will raise their right hands.

Mr. CAMERON (*Nanaimo*): May we have a recorded vote on this?

The CHAIRMAN: Surely.

Mr. ENFIELD: You did say that as far as you are concerned, to date there had been no abuses of this type of charge in your investigation?

Mr. MACGREGOR: That is correct.

Mr. ENFIELD: This was a sort of insurance clause?

Mr. MACGREGOR: Yes.

The CHAIRMAN: The motion is that subclause (1) of clause 1 be deleted.

Mr. FLEMING: Before the motion is put may I ask Mr. MacGregor if in case this clause should be eliminated, can we have his assurance that he will give this aspect of the business his close attention and if he finds any

abuses—that is to say, in cases where the lending company is vending the insurance at a profit to itself—that he will make those cases known and report them?

Mr. MACGREGOR: I can give you that assurance very readily. I need not say that if the paragraph is dropped the future depends largely on the lenders themselves; and I would hope that if they make insurance arrangements they will do so at net cost to themselves just as the witness from the Canadian Bank of Commerce mentioned this afternoon, that they will make an adjustment in charging their insurance costs against their borrower to get it on a net basis. In my earlier evidence I mentioned that there were two lenders who, prior to the coming into effect of the Small Loans Act in 1940, had made arrangements at additional cost to the borrowers, and that we have not disturbed those arrangements. They are small licensed lenders. We looked into those policies not long ago and corresponded with the company that issued them. As a result, a substantial reduction in premiums was effected in both cases on the basis of the experience under them.

Mr. FLEMING: Perhaps we could expect the same result to follow?

Mr. MACGREGOR: We must look for the co-operation of the lenders themselves. It could develop into a situation where it might appear that we were interfering with the conduct of their business, and I do not want to get into that position. But usually in these matters they can be discussed in an objective way. I hope that no abuses will develop, but it simply remains to be seen the extent that the lenders co-operate in that respect.

The CHAIRMAN: We will take a vote then.

I declare subclause (1) of clause 1 deleted.

The subclause (2), "Paragraph (c) of section 2 of the said Act is repealed and the following substituted therefor": —the only change there is raising the limits of the jurisdiction to \$1,500 from \$500. Shall the subclause 2 carry?

Subclause 2 agreed to, and that it be renumbered as subclause (1).

That is a similar thing in subclause 3 of clause 1. It is to increase the jurisdiction to \$1,500. Shall the subclause 3 carry and it be renumbered as subclause (2)?

Agreed.

Shall clause 1 carry as amended?

Agreed.

Mr. ENFIELD: Where are we?

The CHAIRMAN: On clause 2 of the bill.

Mr. ENFIELD: Are we on clause 2 now, Mr. Chairman?

The CHAIRMAN: Clause 2, subsection (1) of section 3 is simply changing the penalties, as I understand it. What is the change there, Mr. MacGregor?

Mr. MACGREGOR: The change is in the penalties. Those changes were made by the Department of Justice to bring them into line with penalties in the Criminal Code as recently revised.

Mr. FLEMING: I think the change is this, is it not: formerly the breach was an indictable offence, whereas now it is an offence punishable on summary conviction?

Mr. FULTON: Mr. MacGregor, as a matter of interest only, because I am in favour of heavier penalties, can you tell us why the fines are so much heavier than the fines in the Bank Act for an offence against that act?

Mr. MACGREGOR: I cannot answer that question, Mr. Fulton. The amounts that have been inserted there are solely the responsibility of the Department of Justice, and they simply assured me, when I raised the question, that they were made to conform with the recent revision of the Criminal Code.

The CHAIRMAN: Shall the proposed subsection (1) of section 3 carry?

The proposed subsection clause agreed to.

Mr. FOLLWELL: Mr. Chairman, in clause 2, are you on subsection 2 now?

The CHAIRMAN: I was just going on to it, so you can consider anything on it.

Mr. FOLLWELL: On subsection (2) I have a motion of an amendment to move. I feel that we should take a realistic approach to this, and I am prepared to move this amendment. It would appear to me that it sets out that in that area between \$1,000 and \$1,500 in this bill it provides that the money-lenders will lend only at what might be termed 6 per cent bank interest rate. It has been brought forward to the committee that some of the loan companies are paying somewhere between 5 and 10 per cent for the money. So, it is a fore-gone conclusion that they are not going to lend money out at $\frac{1}{2}$ of 1 per cent. For that reason, Mr. Chairman, on clause 2 of the bill I move:

That subsection (2) of the proposed new section 3 of the Act be enacted by the said clause be deleted, and the following substituted therefor:

- (2) The cost of a loan shall not exceed the aggregate of
 - (a) 2 per cent per month on any part of the unpaid principal balance not exceeding \$300;
 - (b) 1 per cent per annum on any part of the unpaid principal balance exceeding \$300, but not exceeding \$1,500;
 - (c) 1 per cent per month on any remainder of the unpaid principal balance exceeding \$1,000.

The CHAIRMAN: Have you a copy of that?

Mr. FOLLWELL: Yes.

Mr. KNIGHT: Mr. Chairman, before we go on to this, I would like to ask Mr. Follwell—I did not perhaps hear him right.

Mr. FOLLWELL: I think the chairman will read it.

Mr. KNIGHT: No, it will not be in the motion. Did you say that some associations were paying between 5 and 10 per cent for the use of money? You said between 5 and 10 per cent. What did you mean, or did you mean that?

Mr. FOLLWELL: I said between 5 and 10 but what I meant was that it was asserted that the rate paid was somewhere between 5 and beyond that. I do not think anybody pays more than 10 per cent. That was my own opinion.

Mr. KNIGHT: I thought $5\frac{1}{2}$ was the highest paid.

The CHAIRMAN: That was the bank interest. Lots of these people borrow privately and have to pay higher interest rates.

Mr. TUCKER: So far as I am concerned, Mr. Chairman, I understand the effective rate in the bill—

Mr. ENFIELD: Are we discussing the amendment now?

The CHAIRMAN: You are speaking on the amendment, are you?

Mr. TUCKER: Yes. Could we have that amendment read so we will all know exactly what it is?

The CHAIRMAN: I will give you its effect. It is exactly this, if you look at the present clause 2, subclause (3): it will eliminate paragraph (c) and change paragraph (b) by changing the words "one thousand" to "fifteen hundred dollars". That is its effect.

Mr. MONTEITH: It would eliminate subsection (c).

The CHAIRMAN: Yes. It gets rid of half of one per cent from \$1,000 to \$1,500 and substitutes 1 per cent.

Mr. FULTON: Well, \$500 to \$1,500.

Mr. CRESTOHL: \$300 to \$1,500.

Mr. TUCKER: Mr. Chairman, I do not intend to take more than a minute on this. I understand the effective rate under the bill is, on the proposed rates—the effective rate on a loan of \$1,500 is about 16 per cent per annum. In view of the fact that those companies, that are doing the bulk of the business, on the basis of the rate set out in the bill, will make over 16 per cent on the amount of their investment in their common shares, after paying all interest and expenses, and that is higher than that made by any other industry except the pulp and paper industry, I do not think that we should further increase the rate, so I think we should carry the bill in this regard. I intend therefore to vote against the amendment.

The CHAIRMAN: By the way, Mr. MacGregor suggests that the drafting of this amendment could be improved.

Mr. FOLLWELL: I do not doubt that; I certainly do not doubt that. I certainly do not profess to be a lawyer, just a common ordinary salesman.

The CHAIRMAN: You have my sympathy.

Mr. FOLLWELL: A farmer trying to get along on asparagus.

Mr. CRESTOHL: Stop writing law.

Mr. MACGREGOR: If I understand your intention, Mr. Follwell, it seems to me that all that is necessary to accomplish it is to add at the end of paragraph (a) the word "and," delete paragraph (b) and at the beginning of (c) delete the words "one half of" and then change \$1,000 to \$300. That would simply retain the same form as the clause in the bill.

Mr. FOLLWELL: I thought to change \$1,000 to \$300.

The CHAIRMAN: Mr. MacGregor's suggestion for a better wording of the amendment would be: after paragraph (a) add the word "and" then delete paragraph (b) and re-letter (c) to (b) eliminating the words "one-half of" and changing the words "thousand dollars" to "three hundred dollars".

Mr. CRESTOHL: Where do you put paragraph (c)?

Mr. MACGREGOR: It is not needed because a loan is defined to be a loan not exceeding \$1,500.

The CHAIRMAN: If you do not mind I will reword that; it will take some time. I am not enjoying this. I would rather Mr. Fulton did it. I do not know whether this is any better but I will read it to you:

Moved that section 3(2) of the Small Loans Act be amended by adding at the end of section 3(2) (a) of the Small Loans Act the word "and"; and that paragraph (b) be deleted; and that paragraph (c) be amended by deleting the words one half of, and deleting the words "one thousand" and substituting therefor the words "three hundred".

That could be "vetted" by Dr. Ollivier. I do not guarantee it is the proper wording.

Mr. CAMERON (*Nanaimo*): Will you tell us the effect, Mr. Chairman?

The CHAIRMAN: The effect is simply to change one half of one per cent to one per cent between \$1,000 and \$1500.

Mr. FULTON: The effect is to change the effective rate of interest from \$300 to \$1500 to one per cent.

Mr. ARGUE: Mr. Chairman, I am going to oppose the amendment because I think the evidence we have been given, particularly by Mr. MacGregor, shows it is quite possible for at least the majority of small loans companies to operate under the provisions of the bill as it was referred to us by the house. If one half of one per cent per month is the legal limit it works out, according to Mr. MacGregor's evidence, to an interest rate equivalent to 1.27 per cent per month at least on \$1500. As a matter of fact I think 1.27 per cent is not only adequate but that it is a very large interest rate, and I think in the light of the evidence given to us by the credit unions, by the Caisses Populaires, by the Bank of Commerce that this committee should not have foremost in its mind what may happen to some of the small loans companies dealing with this particular range of loans, and whether or not they will be able to operate; but that this committee should set the maximum interest rate that the ordinary people of this country can afford to pay, and then take whatever other steps may be necessary to ensure that such moneys are offered at that rate.

The CHAIRMAN: Does anyone else want to speak on this?

Mr. ENFIELD: The committee will recall that Mr. Tucker said, Mr. Chairman, that he could not see why the companies should make 16 per cent after this adjustment under Bill 51 bearing in mind that such profits were second only to those of the newsprint industry. I would like to point out that we were given two tables on which to compare the profits of the various industries and companies. The list to which Mr. Tucker referred was calculated on the basis of net profits after the payment of dividends on preference shares had been deducted. However, the table on the previous page provides information indicating the profit before such dividends are deducted. As such dividends are paid to the holders of the preference shares out of earned surpluses—that is, profit—I feel that the first table was the more realistic and provides material for a better comparison of the earnings of the various companies. On this list we find that the earnings of the loans companies are, rather than 16 per cent, 12.95 per cent compared with the highest earnings on the list—those of the newsprint companies—which are 27 per cent.

The difference between the industries is the method of financing and issuing shares. If you issue, as these paper companies do, large blocks of shares bearing fixed rates paid out of earnings and surplus, that is one thing; if you operate, as do the Canadian small loans companies, with no such issues it is another. It does not seem fair to deduct the surplus paid in the way of preference share dividends from the one set of companies and then compare the profits of the two groups.

Mr. TUCKER: They regard the interest on those preferred shares in the same light as borrowings on debentures, and consider that that should be paid before arriving at the actual profit on the investment in the company's common shares. I consider that when the people who are investing their money in these small loans businesses are getting the second highest return of any industry in Canada on their investment in common shares, if this bill is passed as it is, that this committee should not think of still further increasing their return by raising their rates.

Mr. ENFIELD: I have put my argument which I think, in some degree, offsets the point which you make. At least I think that it should be given some consideration.

I was glad to hear Mr. Argue say that he did not think it matters whether or not Canadian small loans companies continue in business.

Mr. ARGUE: I said that it should not be the first thing, the uppermost thing, in the minds of the members of the committee.

Mr. ENFIELD: I myself think that this increase in the rate from \$1,000 to \$1,500 is realistic because it will perhaps allow the Canadian companies to continue in that field which was not, apparently, previously being serviced. It does give them some measure of relief from the measures as proposed in Bill 51, not too much it is true; but I think it is a good thing to keep Canadian companies in the field. For that reason, I think that the increase is well warranted.

The CHAIRMAN: All those in favour of this amendment?

Mr. ARGUE: May we have a recorded vote.

Mr. HENDERSON: In speaking to this amendment I am quite sure that no one wants to raise the interest to borrowers, because there are a lot more borrowers than lenders; but we are entering a new field here, raising our limits from \$500 to \$1,500. I think Mr. MacGregor's department is to be congratulated highly for that. I come from a fairly fast-growing community and there is a great deal of demand for personal loans, both small and large. I, like Mr. Argue, put a great deal of emphasis on what Mr. MacGregor's report says, and I particularly refer to page 37 where I see that in the second paragraph Mr. MacGregor, in making his report to this committee, also anticipated that there would be some doubt as far as this one-half of 1 per cent on \$1,000 to \$1,500 was concerned, where he says: "It will probably be said that a rate of one-half of 1 per cent on the part of a loan between \$1,000 and \$1,500 is unrealistic..." Those, I think, are the words which we should bear in mind because it is so close to the rate paid on borrowed money in many cases.

Mr. MacGregor points out, quite correctly, that this is the part of the loan which is paid first and is outstanding a very short time. I might say further that even if this is the part of the loan paid first we must consider the loan as a whole.

A person goes in and borrows \$1,440, and that is the category in which I feel from experience, locally we must make every endeavour to make sure that the loan companies are providing this service to the people, and at the same time that the people are not going somewhere else to get their money. We also must remember that these people who borrow \$1,000 to \$1,500 are in many instances the people who are not getting a loan from the banks because they might be people who do not have the security, or credit, but still have to be serviced.

Mr. MacGregor stated: "For loans between \$500 and \$1,500, being the proposed new area of regulation, the effect would vary, depending upon the pattern or distribution of loans by amount." I am not too sure that we are able to get the exact number of loans in the amount between \$1,000 and \$1,500. That really, as far as regulation is concerned, is a new field.

I notice further, at the top of page 38, Mr. MacGregor stated: "That the two largest small loans companies have only a very small proportion of loans over \$1,000, whereas many money-lenders do about as much business above \$1,500 as between \$500 and \$1,500." It seems to me that between those figures there is a big question mark, as it were, in the loans business in Canada today.

I strongly recommend that this bill be put through as soon as possible, because we want to raise our regulation from \$500 to \$1,500. But with respect to that area in there, between \$1,000 and \$1,500, although I do not have any exact detailed statistics on it, we have calculations made on the assumed charges of 2 per cent per month. I submit that, in many places in Canada today, particularly in places which are growing very fast, there is a greater rate paid than 2 per cent per month either in the organized loans business or the loan-shark business, and for those reasons I would hate to see people with that business having to revert to the alternative of doubling on their loans between

\$500 and \$1,000 or going over the \$1,500 mark. That might be what we might consider to be double borrowing or avoiding the legislation which we have hoped to put into effect; and at the same time we would be allowing the people whom we are really trying to regulate to move to another group, to move higher than \$1,500.

There has been a point brought up here about keeping the Canadian companies in business, which I heartily endorse. By doing that we would ensure competition in the business, and we must keep this point in view, that what we are setting is a maximum; and if some company wants to charge $\frac{1}{2}$ of 1 per cent on that basis there is nothing to prevent it.

I will conclude this by saying that I feel this is a field which we know very little about now, but at the same time it would keep our own companies in the business. I would refer back to the second sentence I stated, whereby Mr. MacGregor himself has said that it is close to the rate paid on borrowed money, in many cases, and for that reason I believe the result is to support the borrower to get a service in that area between \$1,000 and \$1,500 and not be driven to loan sharks.

An hon. MEMBER: Question.

The CHAIRMAN: Put the question. I declare the amendment lost.

Mr. FULTON: What were the totals?

The CHAIRMAN: 7 to 16. Shall subsection 2 of the proposed new section 3 of the Act carry? We now come to subsection (3).

Mr. ARGUE: No, before you leave this subsection I have a further amendment I wish to move. I am certainly pleased that one-half of one per cent is remaining on the larger amount, and I want to repeat the conviction of the members of the C.C.F. group that 2 per cent per month is an outrageous interest rate; it is something which should not be tolerated in a progressive country and it should not be tolerated on a loan of any amount.

The CHAIRMAN: Excuse me for just a second; it is now 10 o'clock. Are we willing to carry on?

Mr. FLEMING: Yes, the house is sitting late tonight by agreement, and the leader of the house has asked the members to stay on. I do not see why we should not carry on.

Mr. ARGUE: I believe that one per cent per month is an interest rate that should be ample; it is an interest rate that all the ordinary borrowing public can afford, particularly the poor of whom we have heard so much and who must borrow within this category. And because we believe that one per cent per month is adequate I wish to move that subsection 2 be amended by deleting all the words after the word "exceed" in line 31 and substituting therefor the following words "one per cent per month".

The CHAIRMAN: You have heard the amendment.

Mr. ARGUE: I am not too sure of the draftsmanship of it, but I did have some legal advice. The thought I had is a maximum of one per cent per month.

The CHAIRMAN: From \$1 to \$1500?

Mr. CAMERON (Nanaimo): No, from \$1 to \$1000.

The CHAIRMAN: Well, you have eliminated all the words after.

Mr. ARGUE: Perhaps this amendment should be corrected. The thing I have in mind is that one per cent per month should be the maximum rate on all loans not exceeding \$1000.

The CHAIRMAN: Well then, you had better draft your amendment because this amendment would make it one per cent up to \$1500.

Mr. ARGUE: Can you change it?

Mr. FLEMING: I think, to save time, that what Mr. Argue wants is to change the word "two" to "one" in paragraph (a).

Mr. ARGUE: That would do it.

The CHAIRMAN: It would not be good draftsmanship that way.

Mr. ARGUE: No. Change the word "two" to "one", and that would be perfectly satisfactory.

The CHAIRMAN: That would not be the final form of the draftsmanship. A provisional form would be to change "two" to "one" on "not exceeding \$1000", instead of "not exceeding \$300", and eliminate (b). We know what we are doing. Do you want it recorded?

Mr. ARGUE: Yes, if you please.

Mr. FOLLWELL: Is the amendment to change the rate from 1 per cent on any borrowing up to \$1500?

The CHAIRMAN: No, from \$1 to \$1000 it would be 1 per cent, and from \$1000 to \$1500 it would be one-half of one per cent. That is the effect of the amendment.

(At this point a recorded vote was taken).

The CHAIRMAN: Has anybody's name not been called? I declare this amendment lost, 4 to 19.

Shall subsection (2) carry?

Subsection (2) agreed to.

In respect to subsection (3) I believe that Mr. Benidickson has an amendment.

Mr. BENIDICKSON: I have heard people say that with the larger amounts of loans outstanding in the present pattern with a term of 15 months, it is rather restrictive and has resulted in an undue amount of rewriting or resetting-up of loans. As far as the minister is concerned, he has received representations along this line, and if it is the wish of the committee that this should be changed, I understand that members of the committee do favour a change, and it apparently would be of some benefit to the borrower in that his monthly payments would be smaller over a month to month period, 10 or 15. I have no objection. I do not intend to make an amendment.

Mr. FULTON: Well then, just where do you stand?

Mr. BENIDICKSON: If anybody else wants to move an amendment of that kind I will vote for it.

Mr. FOLLWELL: I would be very pleased to move that in subsection (3) of the proposed new section 3, in line 41, where the word "15" appears it be deleted and that the word "twenty" be substituted.

The CHAIRMAN: All those in favour?

Mr. FLEMING: Who is asking for it, Mr. Benidickson?

Mr. BENIDICKSON: I have heard quite a number of members indicate it.

Mr. FLEMING: Do you mean members of the committee?

Mr. BENIDICKSON: Yes, they seemed to suggest that this possible revision to the frequency of renewing the note would be helpful.

Mr. FLEMING: I thought you meant that representations had been made to the minister and to the parliamentary assistant, and I wondered by whom they were made?

Mr. BENIDICKSON: No. They were made here in the committee.

The CHAIRMAN: You have heard the amendment. All those in favour of this amendment?

Mr. ARGUE: What does this amendment do?

The CHAIRMAN: It makes the borrowing period 20 months instead of 15 months.

Mr. FULTON: I do not think it does, with all due respect. Subsection (3) is restricted to loans of \$500 or less.

(3) Where a loan of five hundred dollars or less is made for a period greater than fifteen months or where a loan exceeding five hundred dollars is made for a period greater than thirty months, the cost of the loan shall not exceed one percent per month on the unpaid principal balance thereof.

You are changing 15 to 20.

The CHAIRMAN: The reason for that is stated that there are a great many re-negotiations of these loans which do cost money and it would save so many re-negotiations if they could carry on for the period of 20 months. That is only on the loans under \$500.

Mr. FULTON: Yes. For which—I see.

Mr. CAMERON (*Nanaimo*): The 2 per cent would apply over a longer period?

Mr. ARGUE: That is right.

The CHAIRMAN: All the rates would apply.

Mr. CAMERON (*Nanaimo*): All the rates, yes.

Mr. ARGUE: May I ask this question: if a loan of \$500 is obtained during a period of sixteen months, what is the rate of interest under the bill as it is now drafted?

The CHAIRMAN: It is 2 per cent up to \$300 and 1 per cent—

Mr. ARGUE: I would like to ask Mr. MacGregor this—

The CHAIRMAN: I am sorry.

Mr. ARGUE: If a loan of \$500 is now made for a period of 16 months, what is the rate provided in the bill?

Mr. MACGREGOR: Under the act, or under the bill as it reads?

Mr. ARGUE: Under the bill.

Mr. MACGREGOR: It is 1 per cent per month.

Mr. ARGUE: The effect of the amendment if it were to be extended to 20 months, would be to allow a rate of 2 per cent on \$300 and 1 per cent—

Mr. MACGREGOR: That is correct.

Mr. ARGUE: The effect of this amendment then, under those circumstances, would be to increase the rate above the rate provided in the bill?

Mr. FULTON: It is to extend the time.

Mr. TUCKER: The effect of it now, in short, is this, that if they have got to accept a rate of 1 per cent if the term is over 15 months they will make no terms with terms longer than 15 months. This means that the instalments are larger than they would be if the term could be 20 months. So they make the term 15 months or less, then if as a result, the instalments are larger than the person can carry, the loan has to be re-negotiated at increased cost and trouble to everybody. So the idea of the amendment is to permit a loan for as long as 20 months, under the terms of subclause 2.

The CHAIRMAN: All those in favour?

Subsection (3) agreed to as amended.

Shall subsection (4) carry?

Subsection (4) agreed to.

Shall clause 2 carry as amended?

Clause agreed to.

What is the effect of clause 3?

Mr. MACGREGOR: At the present time, section 3 of the act states that if a moneylender does not charge more than 12 per cent per annum on a loan, which under the act means a loan of \$500 or less, then he does not need to apply for a licence. However, the 12 per cent per annum specified in section 3 of the act—I have referred to section 3; I should have said section 5 but the description that I have given is quite right. The maximum rate now of 12 per cent per annum that an unlicensed lender may charge means that the maximum effective monthly rate is .95 of 1 per cent, which is very awkward in practice. Nevertheless, that is the way we have had to interpret the act. The proposed amendment would substitute the maximum rate of 1 per cent per month which an unlicensed lender might charge. It is really an increase from .95 of 1 per cent to 1 per cent. It is proposed for administrative reasons only.

The CHAIRMAN: Shall clause 3 carry?

Clause agreed to.

The CHAIRMAN: Clause 4. That is the same thing.

Clause agreed to.

The CHAIRMAN: I believe, Mr. Benidickson, you have an amendment there on clause 5?

Mr. BENIDICKSON: What had you in mind, Mr. Chairman?

The CHAIRMAN: If you are not prepared to propose it, I will propose it.

Mr. FULTON: Can you?

The CHAIRMAN: Yes.

Mr. BENIDICKSON: I think you were referring probably to section 16. I had in mind that might come at the end of the section; however, if you think it should come now, I might explain what has been discussed.

The CHAIRMAN: Actually, if you will look at the proposed amendments, they are all part of the same general scheme. The proposal, in brief is to change section 16, which involves 15 and 17 as well, to permit a licensed moneylender or small loans company to borrow on the strength of debentures, bonds, etc.—in other words, to place them in the same competitive position as the foreign-owned subsidiaries, whose payment companies can operate on debentures and bonds. You will recall that Mr. McClure stated that the Canadians were at a disadvantage, but it was a disadvantage caused by our own Canadian legislation. It is proposed to eliminate that disadvantage and place them in the same position as the American-owned subsidiaries, so that they may have a chance of getting cheaper long-term money.

Mr. CAMERON (Nanaimo): Are you proposing this as an amendment to our clause 5 of the bill?

The CHAIRMAN: The way the amendment is to be brought forward is to insert the following clause—I would move that we insert the following clause as clause 5. Five then would be renumbered 6.

Mr. FLEMING: Are you taking a clause that amends section 16 of the act ahead of one that amends section 14? Would this not normally follow clause 5 of the bill?

Mr. BENIDICKSON: Mr. Chairman is perfectly right. It is a substitute for the present clause 5.

Mr. FLEMING: It is a substitution for clause 5?

The CHAIRMAN: It is a new clause, which will go into this bill, and the present clause 5 will then be clause 6.

Mr. FULTON: It would be neater if you put it in between clause 5 and clause 6. In other words put it in as clause 6, and number clause 6 and clause 7 as clause 7 and clause 8.

Mr. MONTEITH: Clause 5 deals with section 16 and you were dealing with section 16?

The CHAIRMAN: No, this is a proposal to amend section 13 of the act, which is necessary to be amended in order that section 16 can be amended. If you have the act itself there, the act respecting small loans companies, and will turn to section 13 of it—

Mr. BENIDICKSON: Could I make that motion, Mr. Chairman? I think you have a copy of the amendment.

The CHAIRMAN: It is moved by Mr. Benidickson—

Mr. FULTON: You wound it up good, finally.

The CHAIRMAN: Subsection 3 of section 13 of the said act is repealed, and the following substituted therefor:

(3) Paragraph (f) of subsection (1) and paragraph (c) of subsection (2) of section 60, subsection (3) of section 62, paragraph (c) of section 63, sections 65 to 72—

And really that is the main change because you will see that in the original act it is sections 64 to 72. Section 64 prevented them from lending on debentures or bonds; so it is "65 to 72",—

and sections 81 and 88 of the Loan Companies Act do not apply to the company.

Mr. FULTON: Have you had an opinion from Mr. Varcoe on this?

The CHAIRMAN: Yes. Shall the amendment carry?

New clause 5 agreed to.

The CHAIRMAN: Now it will be necessary, Mr. Benidickson, to have a motion that we renumber clause 5 as clause 6.

Mr. BENIDICKSON: I so move.

Motion agreed to.

Mr. FOLLWELL: I think I should put forward at this time the information that we will probably have to make an amendment in this new clause 6 if we are going to be consistent with the amendment which was previously moved and carried, and that is on page 4 at line 14. You will see that the words "fifteen months" appear there and to be consistent we should amend that to "twenty months" and I so move.

The CHAIRMAN: You have heard the amendment gentlemen. Do you agree?

Amendment agreed to.

New clause 6 as amended agreed to.

Mr. FLEMING: Have you an amendment there to repeal section 16 of the Small Loans Act?

The CHAIRMAN: Yes. Will you move this amendment, Mr. Benidickson?

Mr. BENIDICKSON: I do.

The CHAIRMAN: I will read this to the committee. It will go in as clause 7.

Insert the following clause as clause 7:

"7. Sections 15, 16 and 17 of the said Act are repealed and the following substituted therefor:

Borrowing
powers of
Company.

"15. If authorized by by-law sanctioned by a vote of not less than two-thirds in value of the subscribed stock of the Company represented at a general meeting duly called for considering the by-law the directors of the Company may from time to time,

- (a) borrow money upon the credit of the Company; and
- (b) hypothecate, mortgage or pledge the real or personal property of the Company, or both, to secure the payment of any money borrowed for the purposes of the Company.

Mr. FLEMING: In other words you are leaving out the present subclause (b) which reads: "limit or increase the amount to be borrowed".

The CHAIRMAN: That is right. Sections 15, 16 and 17 really go together there and, if you will listen, I am putting in a new section 16, and 17 as well.

Limit on
aggregate
of moneys
borrowed.
No deposits.

16. The aggregate of the sums of money borrowed by the Company shall not exceed ten times the amount of the Company's unimpaired paid-up capital and surplus.

17. The Company shall not accept money on deposit."

Mr. FLEMING: Mr. Chairman, I asked a question as to the effect of the limitation of section 15 (b) of the present act dealing with the limitation or increase in the amount to be borrowed. Could we hear from Mr. MacGregor on that?

Mr. MACGREGOR: I think paragraph (b) of section 15 as it stands implies that the company may borrow without limit, whereas the proposed section 16 would place a limitation upon the aggregate borrowing powers of the company at ten times the company's unimpaired paid capital and surplus.

Mr. FULTON: What is the purpose of that? We did not seem to hear about it in evidence. Why that change?

The CHAIRMAN: Which change? You mean the limitation to ten times?

Mr. FULTON: Yes, the limitation to ten times.

The CHAIRMAN: In part 2 the small loans companies are subject to all the provisions of the Loan Companies Act except certain named sections in section 13 of the Small Loans Act. Amongst the particular sections that were previously excepted was section 64 of the Loan Companies Act relating to the issuance of debentures. In the amendment now proposed section 64 would disappear as one of the excepted sections. Under the Loan Companies Act, under the Trust Companies Act and under the Cooperative Credit Associations Act organizations that accept money from the public or borrow money from the public are limited to a maximum borrowing power of ten times the company's paid capital and surplus or reserve. That is the origin of the proposed limitation to ten times the capital and surplus in the new clause.

Mr. FULTON: In effect, one section has been left, the applicability of which you wish to retain..

Mr. MACGREGOR: That is correct.

The CHAIRMAN: Shall the new clause carry?

Mr. WALKER: I submit that this is a matter which has never been discussed and which very much affects the Household Finance Corporation. You have had a witness before you, Mr. McClure, who could have spoken on this question, but we have not had any warning whatsoever. This, in effect, requires

a subsidiary to do something the value of which completely escapes me at the moment. Why a subsidiary should be limited in the amount it can borrow from a parent escapes me at the moment. I do not see why any restriction whatsoever should be placed on the amount that companies can borrow. It only makes it more expensive for the borrower if it is done.

Mr. BENIDICKSON: It is not a restriction on the borrower. It is a restriction simply on borrowing by debentures—something you cannot do now.

Mr. ENFIELD: It is too bad that they did not have the material to study.

The CHAIRMAN: As I understand it, Mr. Walker, Household Finance only borrows about five times its paid up capital, anyway.

Mr. WALKER: I am merely making the point. I have not seen the wording and I am not at all sure that I understand the exact effect of this. I was somewhat knocked between the eyes. After all, we had our top financial man here and it was not put to him.

The CHAIRMAN: At that time I do not think it was being considered. It was after he gave that evidence it began to be considered.

Mr. HENDERSON: I think Mr. McClure, when he came back as a witness, was asked about the restrictions on Canadian companies and he said that by this legislation we were limiting the Canadian companies and preventing them from acting on the same basis as the American companies who were borrowings, not just to debentures—

The CHAIRMAN: He gave evidence to that effect.

Mr. MACGREGOR: I think the amendment as proposed applies to all borrowings, not just to debentures.

Mr. CRESTOHL: Then Mr. Walker is perfectly right. We are impairing their facilities and the position they have at the present time, instead of improving them.

Mr. WALKER: Is it proposed, Mr. Chairman, to allow us to accept deposits?

The CHAIRMAN: It says in the proposed new section 17:

"The Company shall not accept money on deposit." As I understand it this would not affect your company, Mr. Walker, because you only borrow about five times your paid up capital and surplus anyway.

Mr. CRESTOHL: They may want to borrow more in the future.

Mr. FLEMING: I thought this was dealing with borrowing from the public. We discussed for some time, and questioned Mr. McClure, on the matter of the issuance of debentures, in other words the borrowing of money by the issuance of bonds, debentures or other securities. I thought we were dealing with that on the basis of borrowing from the public. Our discussion was always about striking out section 16 of the act. Now this goes into sections 15 and 17 as well. It amends 15 and eliminates 17 and substitutes a new provision. It is unfortunate that this was not submitted in advance.

Mr. FULTON: Perhaps we should have another meeting on it, Mr. Chairman.

Mr. FOLLWELL: Mr. Walker has spoken. I do not know if anyone from the Canadian Consumer Loan Association wishes to speak.

Mr. FULTON: I think we all appreciate the fact that we want to get the bill through as early as possible, but would it not be fair to stand it over and have another meeting tomorrow. Mr. Walker says that it raises a point on which he had not had notice, and none of us on the committee had any notice that it was the intention to introduce this amendment. I think we are in agreement with the general principle, but it is possible that it creates results which we would not want it to create. I therefore move that this amendment stand until tomorrow morning.

The CHAIRMAN: You would either have to eliminate the new section 16 or re-word it; that is the one which limits it to ten times the amount of unimpaired paid up capital and surplus.

Mr. FULTON: It may be that when the representatives of the company have had time to think it over that they may think that ten times is sufficient.

The CHAIRMAN: Mr. Cawker, do you have any views on this?

Mr. CAWKER: As president of the association, I have, because this removes one restriction and imposes another. I fail to see what connection there is between the Small Loans Companies Act and this act. If we are to survive, and it is doubtful, I agree that we have got to be able to borrow money. In the case of my own company I have been very fortunate to get the ratio up to 7.92 at the moment. I would like an opportunity to compete with the American companies, but it seems that we get one restriction out and another one in. Are we protecting the borrowers or the public or what? I fail to see any rhyme or reason to this. It is something, from the standpoint of the association, which we violently oppose.

The CHAIRMAN: The reason for it frankly escapes me, when you are not allowed to accept deposits.

Mr. WALKER: May I add that the small loans companies in order to comply with that, if coming near the ten times mark, would have to come back to parliament in order to increase their capital if the authorized capital is paid up.

Mr. MACGREGOR: The wording relates to capital and surplus. I am rather surprised that opposition is expressed to the proposed limit of ten times the company's capital and surplus. My own opinion is that that is unduly high. I think that if the companies are to be permitted to issue debentures to the public that there ought to be some limitation on the relationship between the aggregate borrowed money and the shareholders stake in the company, otherwise there might be a shoe string capital, and an enormous indebtedness to the public subscribing to the debentures.

Mr. ENFIELD: How do you sell bonds on that basis?

Mr. MACGREGOR: In the examples we were furnished with by the Canadian Consumer Loan Association various cases were given of low, medium and high borrowing ratios; eight to one was given as a very high ratio and at the present time there is an average ratio of three or four to one. So it does seem that ten to one, which is the limitation in all the other acts for the same purpose, is exceedingly high rather than low.

Mr. CRESTOHL: Why do you not attach to that the point raised by Mr. Walker? If you have limited to ten times the powers of borrowing from the public, it is understandable, but not in limiting the company in borrowing from sources other than bonds or debentures.

Mr. MACGREGOR: They might borrow from the bank and the debenture holder would have what is left, whatever that might be.

Mr. CAWKER: We certainly, in Canada, amongst the Canadian lenders have low borrowing ratios because we have had one source, banks or friends. Now, for the past sixteen years I think it is fair to say that we have laboured under the misapprehension that we could not borrow outside. Now then it follows, I think, that the borrowing ratios for the Canadian companies are low because we do not have American currency to build up our borrowing ratios.

Now I say again, are we trying to protect the borrower and the Canadian investing public as well? I plead for the Canadian companies and an opportunity to give the American companies some opposition. I think Mr. MacGregor has mentioned eight to one. I mentioned 7.92 in my own case. If we are going

to give competition in this industry, then when we remove one and replace it with another then we are back where we started.

Mr. CAMERON (*Nanaimo*): The chief American competitor of Mr. Cawker, represented by Mr. Walker, is apparently able to operate on the ratio of about five to one. So I cannot see what all the indignation is about by limiting it to ten to one. Apparently all the American companies, of whom you are so fearful,

Mr. CAWKER: I get 7·92 at the moment—
see no necessity of it.

Mr. FLEMING: Mr. Chairman, it is regrettable that we did not have an opportunity of seeing this amendment in printed form before and that these gentlemen did not have an opportunity to see it and to make their representations to us after due consideration. We have discussed, from time to time, at various stages of the proceedings, the possibility of eliminating the fetters imposed on the Canadian companies by section 16 of the Small Loans Act with respect to the raising of money by bonds and debentures and other securities. It has been clearly established that in that respect the Canadian companies are at a disadvantage with the American companies. I understood all along that what we had in mind was the elimination of the fetters now applied to the Canadian companies. It is evident that what we have before us is the elimination of one fetter but the attachment of something else, and I gather from what has been said very forcibly by Mr. Cawker that the new fetter would probably be more onerous even than the existing one.

Mr. Chairman, if this is the only basis on which we will achieve the elimination of this fetter, then I for one am against the amendment.

Mr. CAWKER: Household is quoted at 7·273. There is a small difference in percentages, but a big difference in money.

Mr. BENEDICKSON: I think that we could have this discussion tomorrow morning with the representatives from the industry.

Mr. FLEMING: And deal with the other sections at the same time.

Mr. PHILPOTT: I move that this clause stand.

Mr. MONTEITH: Mr. Fulton moved that a while ago.

Mr. HENDERSON: Mr. Chairman, could we have a copy of the amendment typed for the use of the members of the committee?

The CHAIRMAN: Yes. I will arrange to have that done.

We will now adjourn until 11.30 tomorrow morning.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

BILL 51

An Act to amend the Small Loans Act
including Report to the House

SATURDAY, AUGUST 4, 1956

WITNESS:

Mr. H. C. Walker, Counsel, Canadian Consumer Loan Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Hamilton (York West)	Philpott
Ashbourne	Hanna	Power (Quebec South)
Batten	Henderson	Rea
Bell	Hollingworth	Regier
Benidickson	Holowach	Roberge
Blackmore	Huffman	Robichaud
Cameron (Nanaimo)	Knight	Rouleau
Carrick	Low	St. Laurent (Temis-
Crestohl	Lusby	couata)
Deslieres	MacEachen	Thatcher
Enfield	Macnaughton	Tucker
Eudes	Matheson	Viau
Fairey	Meunier	Vincent
Fleming	Michener	Weaver
Follwell	Monteith	White (Hastings-
Fulton	Nickle	Frontenac)
Gour (Russell)	Pallett	White (Waterloo South)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
SATURDAY, AUGUST 4, 1956

That the name of Mr. Roberge be substituted for that of Mr. Gingues on the said Committee.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

SATURDAY, AUGUST 4, 1956

The Standing Committee on Banking and Commerce begs leave to present the following as its

NINTH REPORT

Your Committee has considered Bill 51, An Act to amend the Small Loans Act, and has agreed to report the Bill with the following amendments:

1.—*Clause 1:* Delete sub-clause (1) thereof and renumber sub-clauses (2) and (3) as sub-clauses (1) and (2) respectively.

2.—*Clause 2:* In subsection (3) of the proposed new section 3 of the Act, delete the word "fifteen" in line 41, page 2, and substitute therefor "twenty".

3.—After clause 4 insert the following new clause as clause 5:

5. Subsection (3) of section 13 of the said Act is repealed and the following substituted therefor:

Certain
provisions
not
applic-
able.

(3) Paragraph (f) of subsection (1) and paragraph (c) of subsection (2) of section 60, subsection (3) of section 62, paragraph (c) of section 63, sections 65 to 72 and sections 81 and 88 of the *Loan Companies Act* do not apply to the Company.

4.—Renumber clause 5 of the bill as clause 6.

5.—*Clause 5 (new clause 6):* In proposed new subsection (3) section 14 of the Act, line 14, page 4, delete the word "fifteen" and substitute therefor "twenty".

6.—After clause 5 (new clause 6) insert the following new clause as clause 7:

7. Section 16 of the said Act is repealed and the following substituted therefor:

16. The Company shall not accept money on deposit.

7.—Renumber clause 6 of the bill as clause 8.

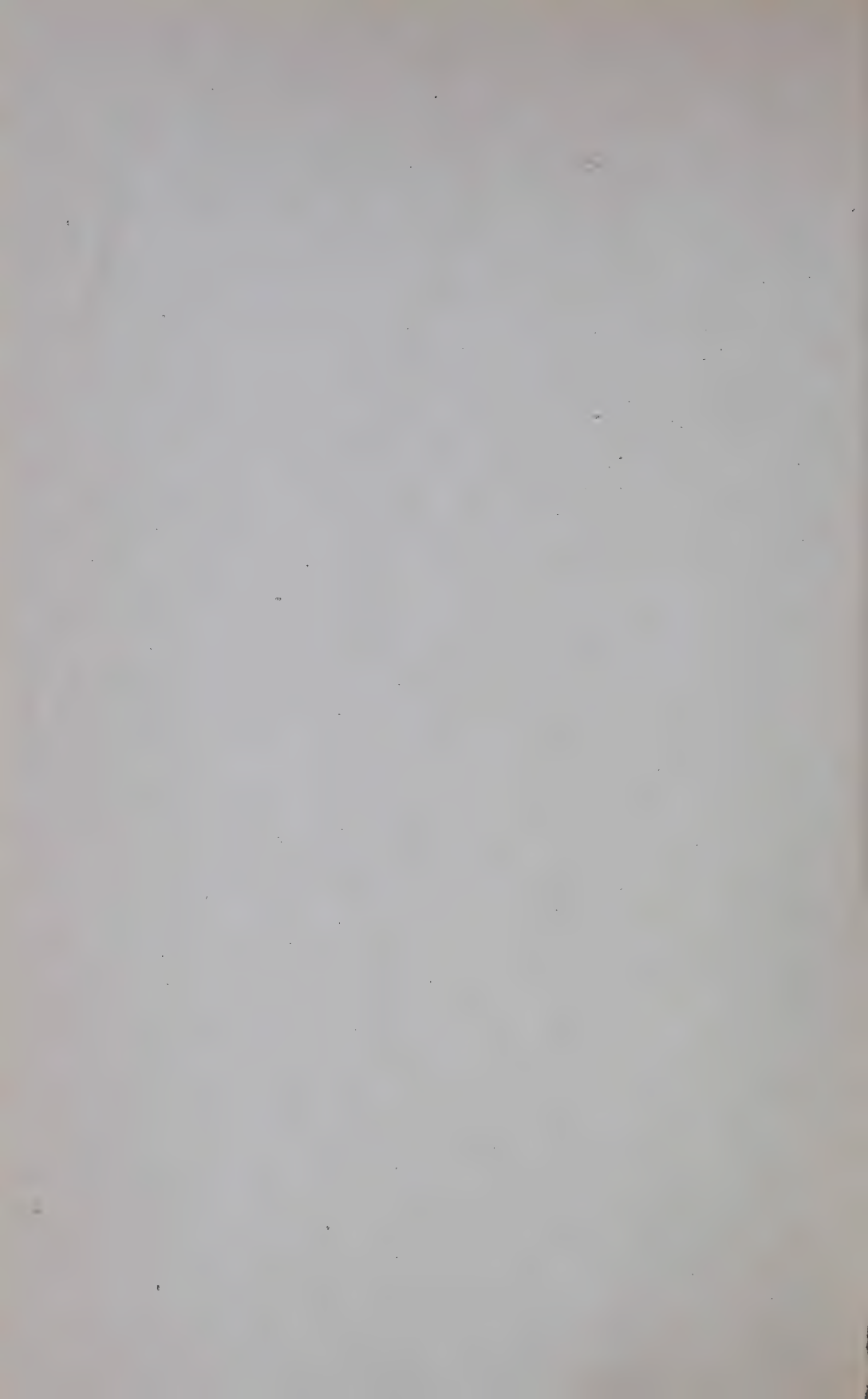
8.—Delete clause 7 of the bill and substitute the following as new clause 9:

9. Sections 1 to 4 and section 6 of this Act are applicable only to loans made after the 31st day of December 1956.

A copy of the Minutes of Proceedings and Evidence relating to the said Bill is appended.

Respectfully submitted,

JOHN W. G. HUNTER,
Chairman.



MINUTES OF PROCEEDINGS

SATURDAY, August 4, 1956.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Fairey, Follwell, Fulton, Hanna, Henderson, Holowach, Huffman, Hunter, Knight, Matheson, Monteith, Philpott, Roberge, Robichaud, Tucker and Weaver.

In attendance: Mr. H. C. Walker, Counsel, Canadian Consumer Loan Association, and other representatives of Small Loan Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its clause by clause consideration of Bill 51, an Act to amend the Small Loans Act.

The Committee agreed that after clause 5 (new clause 6) there be inserted the following new clause as clause 7:

7. Section 16 of the said Act is repealed and the following substituted therefor:

16. The Company shall not accept money on deposit.

It was agreed that clause 6 be renumbered as clause 8; that clause 7 be deleted and that there be substituted therefor the following as new clause 9:

9. Sections 1 to 4 and section 6 of this Act are applicable only to loans made after the 31st day of December 1956.

On the preamble:

Mr. Walker was called and spoke on the amendments to the bill, and was retired. Mr. MacGregor answered questions directed to him.

Following debate Mr. Tucker moved, seconded by Mr. Cameron (*Nanaimo*), That we now report the bill.

The said motion was resolved in the affirmative: *Yeas: 14; Nays: 0.*

The preamble being called, a point of order was raised that in accordance with the above motion it had already been decided to report the bill. The Chairman stated, and Mr. Tucker agreed, that the intent of the motion had been to carry the bill as amended without further delay.

The Committee agreeing, the preamble was carried.

On the title:

Mr. Crestohl moved that the title be changed to "Consumer Instalment Loans Act".

The said motion was negatived: *Yeas: 8; Nays: 11.*

The title was carried.

The bill was carried as amended.

Ordered,—That the Chairman report the bill as amended.

At 12.20 o'clock p.m. the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

SATURDAY,
August 4, 1956
11.30 a.m.

The CHAIRMAN: We have a quorum, gentlemen. It will be recalled that last night we were discussing the insertion of a proposed new clause 7. A problem came up in connection with section 16 of the Act. It is now suggested that the way this will read will be as follows—the proposed new clause 7 will read as follows:

7. Section 16 of the said Act is repealed and the following substituted therefor: "The Company shall not accept money on deposit."

Mr. FAIREY: Finis? That is the end of it, just one clause.

The CHAIRMAN: Yes.

Mr. MONTEITH: Section 16 is taken out.

Mr. FOLLWELL: Do you mind reading that again, Mr. Chairman? Would you start from the beginning, please?

The CHAIRMAN: The way this proposed new clause 7 will read is:

Section 16 of the said Act is repealed and the following substituted therefor:—

and the substitution is: "The Company shall not accept money on deposit."

Mr. FOLLWELL: Thank you; you are very kind.

Mr. FULTON: Mr. Chairman, is it intended not to have the new proposed section 15 that we were presented with last night—not to have that at all?

The CHAIRMAN: That is correct. It simply removes from the Act the prohibition against issuing bonds, debentures, or other securities for money borrowing.

Mr. CAMERON (*Nanaimo*): It places no limit on the ratio?

The CHAIRMAN: The limit will be—how they can sell their debentures.

Mr. CAMERON (*Nanaimo*): Yes.

The CHAIRMAN: Or their bonds.

Mr. FULTON: On that point, sir, somebody remarked last night that such an issue will be subject to the various provincial security exchange commissions and similar bodies, and it was suggested it would give protection to the public; is that correct?

Mr. CAMERON (*Nanaimo*): That was my understanding, yes.

The CHAIRMAN: It is certainly true in my own province, Mr. Fulton. They have to file a prospectus with the securities commission and it is quite a strict one.

Mr. FULTON: Opinions expressed in the United States notwithstanding?

The CHAIRMAN: Quite. I do not think we will be floating any of these with the S.E.C.

Shall the new clause carry?

Clause agreed to.

Now it is necessary to renumber clause 6 as clause 8. Would you please refer to clause 6.

Mr. CAMERON (*Nanaimo*): In the bill?

The CHAIRMAN: Yes.

Item agreed to.

The CHAIRMAN: Shall clause 6 as amended carry?

Item agreed to.

The CHAIRMAN: Then it is necessary to delete clause 7 of the bill and to substitute the following: clause 9—"Sections 1 to 4 and section 6 of this Act are applicable only to loans made after the 31st day of December, 1956." That is just a consequential change as a result of the previous changes. Shall the new clause 9 carry?

Item agreed to.

Shall the preamble carry?

Mr. WALKER: Mr. Chairman, may I speak?

The CHAIRMAN: Certainly Mr. Walker. Would you come forward?

Mr. TUCKER: Mr. Chairman, on a point of order. The committee is considering the bill, clause by clause, and ordinarily they consider the bill *in camera*. When we consider our report, I submit we consider our report *in camera*, and the bill is then reported.

Mr. FOLLWELL: With all deference to Mr. Tucker, notice is usually given that we are *in camera*, and we have given no notice that we are *in camera* today.

The CHAIRMAN: I just happen to disagree with you, Mr. Tucker.

Mr. TUCKER: I suggest that when we are considering the bill, and when we have finished hearing the witnesses, we should report the bill now without hearing any further argument on the matter.

Mr. CRESTOHL: May I move that we extend the courtesy to Mr. Walker that we hear him.

The CHAIRMAN: I might say that Mr. Walker was one of the legal people here in 1938, and gave his opinions to the committee at that time. He was one of the men who was vitally interested in it at the time it was passed. He has been following the legislation ever since, in this work. I think if he has something to say to this committee it might be of value to hear it.

Mr. TUCKER: Mr. Chairman, if we hear from him, then we are under an obligation to hear from somebody else who might want to reply to him. I understood that we definitely decided we came to the end of hearing evidence and we were going to consider the bill on the basis of the evidence that we have already heard. Now, if we reopen the heading of evidence, then how do we know that somebody else is not going to want to speak, and somebody else, and so on? How can you extend the courtesy to one person and not extend it to the other?

Mr. PHILPOTT: Mr. Chairman, I would ask, how long will Mr. Walker be?

The CHAIRMAN: Mr. Walker, how long would you be?

Mr. WALKER: I can reduce it to a very few minutes.

Mr. FOLLWELL: Mr. Chairman, I think we should hear whatever witnesses the committee decides to hear.

Mr. FULTON: I might point out that there are some new amendments now before us which were not included in the bill at the time we heard the evidence. We are free agents and we can decide whom to hear and whom not to hear, and I think it would be only fair and courteous to hear him.

The CHAIRMAN: If the committee wishes to over-rule me that is their privilege, but I personally feel that Mr. Walker should be heard.

Mr. TUCKER: I agree that the committee can hear witnesses if they desire to do so, but I think it should be made clear what witnesses are to be called before a witness gets up and addresses the committee.

The CHAIRMAN: Mr. Tucker, I am not trying to be arbitrary in any way, but I have one slight obligation as chairman of this committee to try and conduct its affairs, and I think that Mr. Walker should be heard. If you disagree you can appeal my ruling, and if you wish some other witnesses called whom I do not want to hear, you have the same privilege.

Mr. TUCKER: But, I am suggesting, Mr. Chairman, that as a member of the committee I have the right to make an observation on it too.

Mr. CRESTOHL: Mr. Chairman, you have a motion before you.

Mr. FOLLWELL: So does every other member of the committee.

Mr. TUCKER: I am not objecting to anyone else making an observation.

The CHAIRMAN: Mr. Walker.

Mr. H. C. WALKER (*Counsel, Canadian Consumer Loan Association*): I need not make any observation about the amendment as it is now or ought to have been last night, but I am impressed by the fact that this was an insertion of a totally new clause that was not referred to in Bill 51. I was under the impression that what the committee could do in the way of amendments was restricted to Bill 51. If we are going to impart new clauses into Bill 51, I suggest that there are some other clauses that should be put into Bill 51 that have not even been touched on. Perhaps the most important one is the change in the name of the Act. The association and my own company, which I represent—Household—would very much like to have the name of the act changed to the "Consumer Instalment Loans Act". That would be very much more appropriate, we submit, and then there is this idea of calling loans up to \$1,500 "small loans". It is my experience and my submission that the behaviour of companies depends a lot on how they are regarded by the public. I cannot say how they are going to be regarded from now on, because I can see the possibility of a loan shark type of operation with a completely unrealistic rate, but if there is anything to preserve, and that is a debatable question, I would urge that the act be given a more modern name. Our own department, the Bureau of Statistics, refer to these as "consumer loans", and they are consumer instalment loans. I doubt very much if they are properly described now as "small loans".

I would like therefore to urge upon the committee that consideration be given to the change of the name to "The Consumer Instalment Loans Act". That would have a consequential amendment in part 2, and the small loans companies would then become consumer loans companies.

Now, following the same line of thought, the name "money-lenders" has obviously received, over the years, an unfavourable connotation. When you hear of the immense business that companies like Niagara are doing—\$34 million of loans,—is it desirable from any point of view to give it a rather off-colour connotation? What good does it do? If it drives people into back alleys we know that is bad. If you can give them something that they are proud of they are more likely to live up to that name. Therefore, I suggest that consideration be given to the adoption of some such word as "licensed lenders", or "registered lenders", or something of that kind.

I do not know, Mr. Chairman, if members of the committee really appreciate the distinction between part I companies and part II companies. Mr. Varcoe touched on it, but he did not explain it. It has become important

because of the attitude that Mr. MacGregor has indicated to this committee. I do not say it is a wrong attitude from his point of view, but it is certainly wrong from the legal point of view, and one which, with the future that now lies ahead, is going to lead to a great deal of difficulty. A part I company cannot be restricted in the matter of the way in which it sets up its capital or the way in which it seeks to obtain that capital from the public. Mr. MacGregor has taken it upon himself to try to be consistent and to adopt the provisions of part II and to make them effective in part I. There is no legal basis for that whatsoever. I suggest that any part I company that wants to have preferred stock or stock on a \$10 par, or which wants to issue bonds and debentures and get its money in any way—that its provincially-given powers permit could force Mr. MacGregor to continue to issue a licence to that company. He has, as you have heard him say, attempted to produce consistency out of inconsistency by suggesting to these companies that if they want to remain in his “good books” they had better do what he tells them to. He has no legal right whatsoever to do that. What has been done is this—and there was a very good reason for doing it was this: by setting up part II companies you added a jurisdictional base that was completely absent in part I. There was, as Mr. Varcoe indicated, some doubt as to whether the power of regulation was sufficient to enable effective legislation to be put on the books. Let me say that the fact that the legislation has not been challenged in 16 years is not because it is necessarily broad legislation but because the lenders themselves decided long ago it was better to have decent business conditions, and it was their co-operation, nothing less, that has made this legislation as effective as it has been.

We have in part II a series of irritating limitations which do not apply to part I. I would suggest that some of them be removed. You have, for example, limitations under part II because of the introduction of sections of the Loan Companies Act, to which we are by no means analogous, which make it difficult for us to set up our capital as we would like to set it up. It requires us to qualify our directors in a way not required of any other company, to limit the executive powers of our directors in a way that ordinary companies do not have to submit to—petty things of that kind that have made it unattractive to seek incorporation under part II.

If the terms of reference of this committee have been broadened, as apparently they have, I suggest we could go into all these various matters, Mr. Chairman, which are long overdue. It was my mistaken impression that I would have been out of order if I had sought to have some member introduce these things.

Mr. PHILPOTT: What you are asking for, specifically, is a change then in clause 1 of the Small Loans Act—

Mr. WALKER: To “Consumer Instalment Loans Act”. That must be fairly in order because you can amend it in the preamble and the title to Bill 51, and the rest would follow by consequential amendment.

The CHAIRMAN: You suggested, Mr. Walker, that if the title were changed to “Consumer Instalment Loan Act”—to which, I might add, the government would have no objection—it would involve a consequential change somewhere in part II.

Mr. WALKER: Well, the statutory name of the part II companies is “Small Loans Companies”.

The CHAIRMAN: You wish to change it to “Consumer Loan Companies”—is that it?

Mr. TUCKER: I move that we now report the bill, Mr. Chairman.

Mr. CAMERON (*Nanaimo*): I second the motion.

The CHAIRMAN: You have heard the motion, gentlemen, that we now report the bill.

Motion put and agreed to.

The CHAIRMAN: Shall the preamble carry?

ask Mr. FOLLWELL: Mr. Chairman, at this stage, is it permissible for me to ask Mr. MacGregor a question in order to obtain an opinion or a direction?

The CHAIRMAN: I think that could be allowed, yes.

Mr. KNIGHT: On a point of order. I did not hear you declare the result of that vote.

The CHAIRMAN: It was affirmative. The motion carried.

Mr. CAMERON (*Nanaimo*): We did not hear you say so.

The CHAIRMAN: I thought it was so obvious that we did not need it.

Mr. KNIGHT: I cannot see through the back of my head and I wondered if it was on the record.

Mr. CHAIRMAN: You should requisition a pair of swivel eyes.

Mr. FOLLWELL: I understand, Mr. MacGregor, that the Household Finance Company has two companies—Household Finance Corporation and Household Finance Corporation Limited. I would like to inquire whether you would issue that company two licences under this new legislation?

Mr. MACGREGOR: We have not received any application yet; we have not considered the matter. It would be my hope that the business would be consolidated into one company and that only one licence would be issued.

The CHAIRMAN: Shall the preamble carry?

Mr. FULTON: Since we have carried the motion to report the bill I do not know what happens to the preamble. That is a problem for whoever put the motion, but how can you carry the preamble after you have reported the bill?

Mr. CRESTOHL: I think you rushed that motion, Mr. Chairman; before we put that motion I think we should have asked whether the preamble carries and whether the title carries, and only then proceeded to the question of whether we should report the bill.

The CHAIRMAN: That is what I am now proposing to do.

Mr. FULTON: It is not a happy situation for you, but you put the motion to report the bill and it was carried. How can you now ask us to consider the title and the preamble?

The CHAIRMAN: I think it was Mr. Tucker who moved this motion to start with, and, as in the case of so many motions of his, it was quite out of order, because, for one thing, he did not move that we report the bill with amendments.

Mr. TUCKER: Like a whole lot of other people I indicated that we should proceed with the reporting of the bill. I would point out that a good deal of time was taken in getting other motions which have been moved in this committee into proper order. All I wanted to do was to suggest that we should go ahead and report this bill without hearing further argument or evidence. Everybody, I think, understood that. If there is any attempt to make a suggestion that all the amendments I make are out of order I am very sorry, but I did suggest merely that I thought the time had come for us to proceed to the reporting of this bill and, naturally, that included carrying the preamble and the title.

The CHAIRMAN: Now we have a new interpretation.

Mr. FULTON: That was not the motion that was made, though it may have been Mr. Tucker's intention.

The CHAIRMAN: You can appeal my ruling if you wish, Mr. Fulton, but I am going to put it now in accordance with orthodox procedure.

Shall the preamble carry?

Preamble agreed to.

The CHAIRMAN: Shall the title carry?

Mr. CRESTOHL: No. We have been seeking during the course of this inquiry to obtain from the witnesses a definition of what they consider a small loan to be. We have attempted to find some way of circumscribing the definition of a small loan, but not one of the witnesses was able to tell us exactly what a small loan was considered to be. I, in any event, was left completely in doubt as to what constitutes a small loan, and when we have a bill before us to amend "The Small Loans Act" I still do not know what it means or what it intends to cover. I was impressed by what Mr. Walker has said, and if the title which he proposes more adequately describes the intention of this act I would move that the title be changed to "The Consumer Instalment Loans Act."

The CHAIRMAN: It is moved that the title be changed to "Consumer Instalment Loans Act."

Motion negatived.

The CHAIRMAN: The motion is lost. Shall the title carry?

Title agreed to.

The CHAIRMAN: Shall I report the bill with amendments?

Agreed.

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Canada. Banking and Commerce, Finance
Committee on

HOUSE OF COMMONS

Fifth Session—Twenty-second Parliament

1957

STANDING COMMITTEE
ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE
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Bill 106 (Letter Q-1 of the Senate)

An Act to amend the Quebec Savings Banks Act

THURSDAY, FEBRUARY 28, 1957

WITNESSES

Mr. C. F. Elderkin, Inspector-General of Banks, Department of Finance.

Mr. Guy Vanier, President, and Mr. P. Alphonse Perrault, General Manager, Montreal City and District Savings Bank; and Judge Thomas Tremblay, Vice-President, Quebec Savings Bank.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Fraser (<i>St. John's East</i>)	Philpott
Ashbourne	Fulton	Power (<i>Quebec South</i>)
Balcom	Gour (<i>Russell</i>)	Quelch
Bell	Hanna	Richard (<i>Ottawa East</i>)
Benidickson	Henderson	Richardson
Bennett	Hollingworth	Robichaud
Blackmore	Huffman	Rouleau
Cameron (<i>Nanaimo</i>)	Low	St. Laurent (<i>Temis-</i>
Cannon	Macdonnell (<i>Green-</i>	<i>couata</i>)
Crestohl	<i>wood</i>)	Stewart (<i>Winnipeg</i>
Deslieres	MacEachen	<i>North</i>)
Dumas	Macnaughton	Thatcher
Enfield	Matheson	Tucker
Eudes	Michener	Valois
Fairey	Mitchell (<i>London</i>)	Viau
Fleming	Monteith	Weaver
Follwell	Nickle	Winch
Fraser (<i>Peterborough</i>)	Pallett	

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS
JANUARY 24, 1957.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:

Messrs.

Argue,	Fraser (<i>St. John's East</i>),	Nickle,
Ashbourne,	Fulton,	Pallett,
Balcom,	Gour (<i>Russell</i>),	Philpott,
Bell,	Hanna,	Power (<i>Quebec South</i>),
Benidickson,	Henderson,	Quelch,
Bennett,	Hollingworth,	Richardson,
Blackmore,	Hosking,	Robichaud,
Cameron (<i>Nanaimo</i>),	Huffman,	Rouleau,
Cannon,	Hunter,	St. Laurent
Cresthol,	Johnson (<i>Kindersley</i>),	(<i>Témiscouata</i>),
Deslières,	Low,	Stewart (<i>Winnipeg</i>
Dumas,	Macdonnell,	North),
Enfield,	MacEachen,	Thatcher,
Eudes,	Macnaughton,	Tucker,
Fairey,	Matheson,	Viau,
Fleming,	Michener,	Weaver—50.
Follwell,	Mitchell (<i>London</i>),	
Fraser (<i>Peterborough</i>),	Monteith,	

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

WEDNESDAY, February 20, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 106 (Letter Q-1 of the Senate), intituled: "An Act to amend the Quebec Savings Banks Act".

FRIDAY, February 22, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 158, An Act to amend the Municipal Grants Act.

WEDNESDAY, February 27, 1957.

Ordered,—That the name of Mr. Richard (*Ottawa East*) be substituted for that of Mr. Hosking; and

That the name of Mr. Winch be substituted for that of Mr. Johnson (*Kindersley*) on the said Committee.

THURSDAY, February 28, 1957.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members and that Standing Order 65 (1) (d) be suspended in relation thereto.

Ordered,—That the said Committee be authorized to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, for the use of the Committee and of Parliament, such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

THURSDAY, February 28, 1957.

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from 15 to 10 members and that Standing Order 65(1)(d) be suspended in relation thereto.
2. That it be authorized to sit while the House is sitting.
3. That it be empowered to print, for the use of the Committee and of Parliament, such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto.

THURSDAY, February 28, 1957.

The Standing Committee on Banking and Commerce begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 106 (Letter Q-1 of the Senate), intituled: "An Act to amend the Quebec Savings Banks Act".

Respectfully submitted,

J. W. G. HUNTER,
Chairman.

MINUTES OF PROCEEDINGS

Part 1 for THURSDAY, February 28, 1957.

The Standing Committee on Banking and Commerce met at 11.00 a.m. Mr. J. W. G. Hunter, Chairman, presided.

Members present: Messrs. Ashbourne, Balcom, Benidickson, Blackmore, Cameron (*Nanaimo*), Cannon, Dumas, Enfield, Eudes, Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell, Michener, Mitchell (*London*), Pallett, Philpott, Richard (*Ottawa East*), Richardson, Robichaud, Stewart (*Winnipeg North*), and Weaver.—(25)

In attendance on Bill No. 106: Mr. C. F. Elderkin, Inspector-General of Banks, Department of Finance, Ottawa; Mr. Guy Vanier, President, Montreal City and District Savings Bank, Montreal; Mr. P. Alphonse Perrault, General Manager, Montreal City and District Savings Bank, Montreal; and Judge Thomas Tremblay, Vice-President, Quebec Savings Bank, Quebec.

Mr. Hunter expressed his thanks for again having been elected Chairman of this Committee.

On motion of Mr. Macdonnell,

Resolved,—That a recommendation be made to the House to reduce the Committee's quorum from 15 to 10 members and that Standing Order 65(1)(d) be suspended in relation thereto. (See *First Report to the House*).

On motion of Mr. Balcom,

Resolved,—That a recommendation be made to the House to empower the Committee to sit while the House is sitting. (See *First Report to the House*).

On motion of Mr. Benidickson,

Resolved,—That a recommendation be made to the House to empower the Committee to print, for the use of the Committee and of Parliament, such paper and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto. (See *First Report to the House*).

On motion of Mr. Ashbourne,

Ordered,—That 750 copies in English and 250 copies in French be printed of the Committee's Minutes of Proceedings and Evidence in respect of Bills 106 and 158.

Bill No. 106 (Letter Q-1 of the Senate), "An Act to amend the Quebec Savings Banks Act", was called for consideration. Mr. Elderkin was called, heard, and questioned together with Messrs. Vanier, Perrault and Tremblay.

Clauses 1 to 9 inclusive were considered and adopted.

The Title and the Bill were adopted and it was

Ordered,—That the Chairman report the said Bill to the House without amendment. (See *Second Report*).

The witnesses were retired.

Bill No. 158, "An Act to amend the Municipal Grants Act", was called for consideration at 11.30 a.m. (*For proceedings on Bill 158, please refer to next issue of these proceedings*).

A. Small,
Clerk of the Committee.

EVIDENCE

THURSDAY, February 28, 1957.

The CHAIRMAN: Gentlemen, we have a quorum. First of all, may I express to you appreciation for being selected as chairman again. I think it is a great honour, and I am very happy to have such a satisfactory committee to work with.

It is customary to reduce to 10 the quorum of 15, which we now have.

Mr. MACDONNELL (*Greenwood*): I will move that a recommendation be made to the house to reduce the quorum from 15 to 10 members, and that standing order 65 (1) (d) be suspended in relation thereto.

The CHAIRMAN: Thank you very much. You have heard the motion, gentlemen. All those in favour? Contrary if any?

Motion agreed to.

It is also customary at this time to obtain authority from the house to sit while the house is sitting. I wonder if we could have a motion in that regard?

Mr. BALCOM: May I move that a recommendation be made to the house to empower the committee to sit while the house is sitting?

The CHAIRMAN: You have heard the motion, gentlemen. Contrary, if any?

Motion agreed to.

It is also customary, gentlemen, at this time to pass a motion to obtain authority to print the proceedings. I wonder if we could have a motion to that effect?

Mr. BENIDICKSON: Mr. Chairman, I move that a recommendation be made to the house to empower the committee to print, for the use of the committee and of parliament, such papers and evidence as may be ordered by the committee and that standing order 66 be suspended in relation thereto.

The CHAIRMAN: You have heard the motion, gentlemen. All those in favour? Contrary, if any?

Motion agreed to.

It will now be necessary to set the printing quantities in respect to Bills 106 and 158. I wonder if we could have a motion to that effect?

Mr. ASHBOURNE: I move, seconded by Mr. Philpott, that 750 copies in English and 250 copies in French be printed of the committee's minutes of proceedings and evidence in respect of Bills 106 and 158.

The CHAIRMAN: You have heard the motion, gentlemen. All those in favour? Contrary, if any?

Motion agreed to.

The first bill on the agenda is an Act to amend the Quebec Savings Bank Act, Bill No. 106, Senate Bill Q1.

Mr. C. F. Elderkin is here to explain anything in connection with it. With your approval I would suggest that he make a preliminary statement in order that the committee will understand what we are attempting to do in respect of this bill.

Mr. C. F. Elderkin, Inspector-General of Banks, called.

The WITNESS: Gentlemen, this bill governs the operations of two savings banks in the province of Quebec. These banks are both over 100 years old, and were incorporated by special acts in 1862 and 1866 respectively. At the time of Confederation they were granted charters by the Governor General. They operate under those charters and derive their powers from this act. They are entirely savings banks, and therefore do not have the powers and privileges that the chartered banks have. Most of their powers are specifically laid down in the act.

This bill amends several of their investment powers as well as making a few rather inconsequential changes in wording.

I think it would be easier to discuss the amendments as we come to the various sections, if that is satisfactory to this committee.

Mr. MACDONNELL (Greenwood): Mr. Chairman, could we have a word as to the exact nature of the deposits? Mr. Elderkin has told us that they receive savings deposits. Are they legally subject to notice? Secondly, would he say a word in general as to the difference in investment powers between these banks and the chartered banks?

The WITNESS: In answer to your first question, almost all of the deposits of both banks are interest-bearing deposits. Theoretically, as in the case of the chartered banks, they are subject to notice. In practice, as in the case of the chartered banks, notice is very rarely, if ever, requested.

With respect to the investment powers, to a great extent the savings banks are restricted to certain types of securities which are specified later in the act including federal, provincial, municipal, religious and school securities. They have some investment powers, which we will discuss later, in corporate securities, but these are rather limited.

In the lending field they are very restricted. They make very few commercial loans, and require a very high type of security when they do make loans, with the exception of loans to individuals, which up to a limit may be made without security. This limit is being amended by this bill.

They have one power that chartered banks do not have, in that they can and do make loans on conventional mortgages whereas the chartered banks are not permitted to do so. They are also authorized lenders under the National Housing Act on guaranteed mortgages.

By Mr. Michener:

Q. Mr. Chairman, we have the two financial statements of the banks here. Could Mr. Elderkin just say a word about their assets—paid up capital and their financial positions? I take it they are both in sound health and condition?
A. Very sound.

Q. And the bill is not necessarily a result of any weakness of the banks?
A. No. The purpose of some sections of the bill is to enlarge the powers so as to give them an opportunity to operate in a slightly wider investment field, and to remove some restrictions which are not considered necessary.

The two banks had total assets at the end of December, 1956, of approximately \$273 million. They had a total capital, rest and undivided profits of about \$12,200,000. They had deposits at that time from the public of approximately \$251 million. Their investments were, as I have said, concentrated greatly in federal, provincial, and municipal government securities—to the extent of about \$184 million.

By Mr. Macdonnell (Greenwood):

Q. And the balance?—A. They are, of course, required to maintain a cash reserve, which is similar to the cash reserve that used to be in effect for chartered banks. That is namely a five per cent daily cash reserve. They have mortgages of about \$30 million.

By Mr. Stewart (Winnipeg North):

Q. Could the witness tell us on whose instigation these amendments are being made? Is it at the instigation of the department, or of the banks themselves?—A. For the most part it is on the part of the banks themselves. The department is taking the opportunity, in view of the fact that the amendments are being made, of putting in a few inconsequential ones with reference to the wording. But, the amendments as to the powers are at the request of the banks themselves.

By Mr. Michener:

Q. They are both joint stock companies?—A. Yes, sir.

Q. And how many directors are there in each?—A. My recollection is that they each have authority to have 10 directors.

Q. Have you any information about the number of shareholders who hold shares in the banks?—A. I am afraid I cannot answer that. We have officers of the two banks here. They might be able to give you that information, but I do not have it by memory.

Q. It would be interesting to know approximately how widely the securities of the banks are held.—A. They are not very widely held because these have been, in effect, community banks. They are concentrated respectively in and around the city of Montreal, and in and around the city of Quebec. I think I am safe in saying that to a great extent most of their shareholders are also in the same communities.

Q. What rate of interest are they paying on deposits now?—A. They pay the same as the chartered banks.

Q. Which is what?—A. Two and three quarter per cent.

Q. Two and three quarter percent.

By Mr. Macdonnell (Greenwood):

Q. Can you say that the net aims and results of the present amendments are?—A. There are three amendments which alter their security investment powers, and give them some further privilege, but relatively little. It is mostly to wipe out anomalies in the present act. These are amendments which increase their powers of investment in mortgages. For this type of institution these are desirable investments. Incidentally, the amendment with respect to that is both restricting in some cases and enlarging in others, because we are proposing certain qualifications which are more restricted than they were before, but enlarging the amount which they may invest.

There is a further amendment in respect of the mortgages—that is conventional mortgages—which allows them to charge a rate of interest which is according to the market. Previously, because of the way the act is worded, they automatically were restricted on mortgage loans just the same as they were restricted on other loans, to the same limit as in the Bank Act, namely: six per cent per annum. Of course, that rate is now topped considerably in the conventional mortgage market.

There is a further amendment permitting them to increase the loans which they may make to individuals without security, from \$2,000 to \$5,000. This

is a power which the banks have exercised very successfully. These banks deal, to quite a great extent, with people who in times of trouble, perhaps have not got security. What they do have, principally, is their moral responsibility, and the banks may have known them for years. This type of loan has been very helpful to the public, and the losses under that authority have been practically negligible.

Q. As I understand it, their investments very largely are in government bonds, or in mortgages, and conversely, they have a very small part of their investments in commercial loans?—A. Very small. At December 31—it is a little difficult to segregate the commercial loans in this statement—but they only had altogether \$10 million in loans, including individual loans, personal loans, call loans and all other types of loans.

Q. That is out of the total assets of \$270 million?—A. Yes.

By Mr. Stewart (Winnipeg North):

Q. Mr. Elderkin, can you give us some idea of the dividend history of the banks in recent years?—A. Perhaps I had better ask the representatives of the banks. If I remember, they have paid their dividends consistently for many years,—as far as I know, since the turn of the century at least. Is that not right, Mr. Vanier?

MR. GUY VANIER (*President of the Montreal City and District Savings Bank*): We have neither omitted nor decreased dividends since the inception of business.

THE WITNESS: I think the same could be said for the Quebec Savings Bank. The present rate is \$1 per share, and a bonus of 10 cents, I think, last year. In the Montreal City and District Savings Bank, the rate is \$2 per share, altogether.

By Mr. Stewart (Winnipeg North):

Q. What is the value of the shares—the nominal value?—A. They have the same par value as the chartered banks—\$10 per share. The shares of neither of the banks are listed on a stock exchange.

The CHAIRMAN: It sounds like a good investment, Mr. Stewart.

Mr. STEWART (*Winnipeg North*): It sounds not too bad.

The CHAIRMAN: Are there any further questions?

Mr. RICHARD (*Ottawa East*): Are we taking this in a general manner? Are there no investments in common shares?

The CHAIRMAN: In respect of specific sections, I thought we would wait until we came to the sections.

If there are no more general questions we will start on the bill. Shall clause 1 carry?

Clause 1 agreed to.

On clause 2:

2. (1) Subsections (1) and (2) of section 55 of the said Act are repealed and the following substituted therefor:

Cash reserve. “55. (1) The bank shall at all times maintain a cash reserve in the form of notes of or deposits with the Bank of Canada or of deposits with a chartered bank in Canadian currency and such reserve shall be not less than five per cent of such of its deposit liabilities as are payable in Canadian currency.

Additional
reserve.

(2) The bank shall at all times maintain a reserve, in addition to that required by subsection (1), equal to at least fifteen per cent of such of its deposit liabilities as are payable in Canadian currency in the form of

(a) notes of or deposits with the Bank of Canada or of deposits with a chartered bank in Canadian currency, or

(b) securities of or guaranteed by the Government of Canada or of a province."

(2) Section 55 of the said Act is further amended by adding thereto the following subsection:

Reserve for
foreign
liabilities.

"(4) The bank shall also maintain adequate reserves against liabilities payable in foreign currencies."

Mr. MACDONNELL (*Greenwood*): Could we have something said about that?

The CHAIRMAN: This is on clause 2, is it, Mr. Macdonnell?

Mr. MACDONNELL (*Greenwood*): On clause 2, yes. Could Mr. Elderkin compare the position, as it will be if the amendment is passed, with the position of the chartered banks?

The WITNESS: There are some differences between this formula and that of the chartered banks.

These banks are required to keep a five per cent cash reserve. Incidentally, these amendments which you have here in clause 2, to section 55, are only putting into legislation what has been in effect. This is just correcting the drafting of the 1954 bill. The cash reserve only relates to "Canadian" deposit liabilities. That word "Canadian" was omitted. You will notice that all the changes in the section are changes which state that deposits are in Canadian currency, and that the cash reserve shall be in Canadian currency.

Subsection (4) is an added subsection. It was considered necessary to put this in the act, in view of the fact that the first part of the section will now only refer to Canadian reserves. I might say that this subsection (4) is identical to a similar subsection of the Bank Act.

In practice, these banks maintain 100 per cent cash reserve with respect to deposits in foreign currencies. No securities other than Canadian are held by either bank.

Clause 2-agreed to.

On clause 3:

3. Section 59 of the said Act is repealed and the following substituted therefor:

Idem

"59. The bank may invest in

(a) the securities and preferred shares of a corporation incorporated in Canada

(i) the common shares of which are listed on a recognized stock exchange, or more than one-half the common shares of which are owned by a corporation incorporated in Canada whose common shares are listed on a recognized stock exchange,

(ii) that has, in each of its last five financial years ended less than one year before the date of the investment, paid in cash, out of income earned in the year of payment,

- (A) a dividend on all its outstanding capital stock, or
- (B) interest in full upon all of its outstanding securities, and
- (iii) that has an unimpaired paid-up capital and earned surplus in excess of five hundred thousand dollars;
- (b) the shares of a chartered bank that has, in each of its last five financial years ended less than one year before the date of the investment, paid in cash, on all its outstanding capital stock, a dividend out of income earned in the year of payment; and
- (c) any other securities approved by the Treasury Board;

if the aggregate value of the investments on the books of the bank under this section, together with the market value of the proposed investment, does not exceed fifteen per cent of its deposit liabilities."

By Mr. Richard (Ottawa East):

Q. I would like to have an explanation of that section, and how it applies in the long run. Does that mean—and I suppose this is a common clause in these acts—that such a bank can invest in any stock on the exchange in Canada, for example mining stock, that would have been paying one cent or two cents dividend for five years?—A. No. This section does not give authority to invest in common stocks. This section gives authority to invest in securities, which incidentally are defined by the act as being bonds, to all intents and purposes, and preferred shares of a corporation. The reference to common stock in paragraph (a) of clause 3, is a provision qualifying the preferred shares and the securities of the corporation. In other words, the banks are only authorized to invest in such securities and preferred shares if the common stock is listed.

Q. Oh, yes.—A. But, they are not authorized under this section, to invest in common stock.

Q. Have they any powers to invest in common stock?—A. We are coming to that in the next section.

The CHAIRMAN: Shall clause 3 carry?

By Mr. Macdonnell (Greenwood):

Q. I wanted to ask this question: in the explanatory note, it says: "in the concluding provision of this section, as amended, the investment limit in relation to deposit liabilities would remain the same, but would be based on the book value of the securities held rather than the market value."—A. Yes. The previous section read, as you will see above, that the aggregate which they might hold in this type of investment was a combination of the market value of the investments which they already held plus, in effect, the market value of the securities they were buying.

As you will understand, that could raise some rather peculiar circumstances because they might have bought bonds at a discount, which bonds might since have gone up; or they might have bought preferred shares at a low value.

What the act is trying to provide is this: that the total investment which the bank has in this type of security at the time of the purchase is the basis of the limit rather than what the market value might be whether it be less or more; it is the amount which the bank has in this type of investment plus what they are going to invest which is limited.

By Mr. Richard (Ottawa East):

Q. Even if it is preferred stock of a company, there is no requirement that the dividends will be of a given size, that they could be half of one per

cent or one per cent?—A. The company has to have paid dividends on all its outstanding capital stock, both preferred as well as common.

Q. It could be any kind of dividend?—A. That is right; and there may be the other qualification of having paid interest on all its securities.

Clause 3 agreed to.

On clause 4.

4. The said act is further amended by adding thereto, immediately after section 59 thereof, the following section:

Idem 59A. The bank may invest in the securities and shares of a corporation incorporated in Canada, other than one mentioned in section 58 or 59, the securities of which are not in default in respect of either principal or interest, if the aggregate value of the investments on the books of the bank under this section, together with the market value of the proposed investment, does not exceed fifty per cent of the paid-up capital and rest account of the bank.

By Mr. Richard (Ottawa East):

Q. Mr. Chairman, it may be that this is the place where we might receive an explanation of what type of securities are in mind.—A. This is a clause which is new as you can see, and it permits the bank to make any type of investment in security or shares which it sees fit, up to a limited amount. This is a new departure for savings banks. But there is a somewhat similar provision in the Canadian and British Insurance Companies Act which authorizes those companies to make investments and loans not otherwise authorized, in the aggregate not exceeding three per cent of the book value of the assets of the company. This proposed amendment sets, a different limit on it; that is to say it sets a limit of 50 per cent of the paid up capital and the rest account. In other words, the amendment or the authority places the limit on these investments at 50 per cent of the shareholders' funds.

By Mr. Macdonnell (Greenwood):

Q. That is to say shareholders' equity?—A. That is right, yes; and the amendment would have permitted the banks to invest in securities and shares of this type as at December 31 to the extent of only \$5½ million, that is, for the two banks combined.

If a similar provision were here as in the Insurance Companies Act, the limit would be about the same, in the smaller bank, but substantially greater in the larger bank. In other words, this permits a very limited scale of investment in any type of security or share which the management of the bank might consider desirable.

By Mr. Richard (Ottawa East):

Q. It could be that at some time it might be a risk investment?—A. Quite possibly it could be a risk investment, but relatively of very small size because the authorized total is only \$5½ million out of total assets of \$273 million. It is sometimes called a "basket clause".

By Mr. Macdonnell (Greenwood):

Q. Clause 4 of the bill reads:

59A. The bank may invest in the securities and shares of a corporation incorporated in Canada, other than one mentioned in section 58 or 59, the securities of which are not in default in respect of either principal or interest, if the aggregate value of the investments on the

books of the bank under this section, together with the market value of the proposed investment, does not exceed fifty per cent of the paid-up capital and rest account of the bank.

In other words, that is the same intent as 50 per cent of the shareholders' equity.—A. That is right.

Q. 50 per cent of shareholders' equity could be a variable amount.—A. No, it could only be a variable amount as new stock is subscribed, or as additions are made to the rest account. It does not take in all the shareholders' equity because it does not include the undivided profits account; it only takes in the paid up capital stock and the profits which have been set aside which were derived from operations. It does not include the undivided profits accounts which accounts are normally used for dividend distribution.

Q. I think that is the answer to my question; it does not include all shareholders' equity?—A. No, it does not.

Mr. BENIDICKSON: Mr. Chairman, have we asked whether or not the representatives of the banks care to say anything before we carry the bill?

The CHAIRMAN: Would you like to hear from Mr. Vanier?

Mr. VANIER: No thank you, Mr. Chairman. I think that Mr. Elderkin has answered for us very clearly, accurately, and effectively. We have nothing to add except to say that we fully agree with the department on each of these matters.

Mr. MICHENER: How many shareholders are there?

Mr. VANIER: There are around 800 in our bank.

Clause 4 agreed to.

On clause 5.

5. Paragraph (g) of section 63 of the said Act is repealed and the following substituted therefor:

“(g) to any individual in an amount that, together with the amount owing by the individual to the bank in respect of any other loan under this section, does not, at the time of the loan, exceed five thousand dollars;”

Mr. MACDONNELL: Might we have a word from Mr. Vanier as to the amount of the loans. I presume that the history of the personal loans of \$2,000 has been satisfactory; but with the decrease in the value of money it is felt desirable to raise the amount. So we might have a word on that, and also with respect to your balance sheet,—as to how much. I take it that it is quite a small amount of the bank's assets?

Mr. VANIER: The amount invested in loans of that type would amount to only a few million dollars and we have suffered practically no loss from that. We think that \$2,000—now that money has depreciated—is a very low amount and we do not like to turn down good clients who come to us with reasonable credit on their moral value.

The CHAIRMAN: It is not a very high loan.

The WITNESS: I may say from my own experience and for the benefit of the committee that the history of both banks in this type of loan has been exceptionally good and the losses have been relatively negligible.

The CHAIRMAN: If you bring in a \$100 bond you may borrow \$50?

The WITNESS: The loans are made entirely without security and are almost always made to depositors in the bank, that is to customers who have been with them for a great many years.

Clause 5 agreed to.

On clause 6—Loans and advances on security of first mortgages.

6. Section 64 of the said act is repealed and the following substituted therefor:

Loans and
advances on
security
of first
mortgages.

“64. (1) The bank may lend money and make advances on the security of a first mortgage or hypothec on improved real or immovable residential property in Canada if

(a) the loan is authorized by a resolution of the board of directors of the bank, and

(b) the amount of the loan does not exceed the lesser of

(i) sixty per cent of the value of the real or immovable property on which the mortgage or hypothec is taken, or

(ii) one hundred thousand dollars,

and the aggregate amount outstanding of

(c) loans made by the bank under this section,

(d) loans made by the bank under the *National Housing Act, 1954*, and

(e) mortgages and hypothecs invested in by the bank under section 60,

together with the proposed loan, does not exceed forty per cent of its deposit liabilities.

“Improved
real or
immovable
residential
property”
defined.

(2) In this section “improved real or immovable residential property” means land or immovable property upon which there is situate a building that constitutes a permanent improvement to the property or on which there is such a building in the process of construction, if at least one-half of the floor space of the building is used, or in the case of a building in the process of construction, is to be used, for residential purposes.

Mortgages
as part
payment.

(3) This section does not limit the authority of the bank to accept a mortgage or hypothec of any amount as part payment of the sale price of real or immovable property sold by the bank.

Interest
rate.

(4) The provisions of section 71 do not apply to loans and advances made under this section.

By Mr. Cannon:

Q. Mr. Chairman, with respect to clause 6 I would like to know if these banks have always been authorized to make loans directly on first mortgages on real estate?—A. No. The power to make conventional mortgage loans was first granted to these bank in 1948, and it was first restricted to 5 per cent of their deposit liabilities; later, in 1952, it was raised to 10 per cent of their deposit liabilities, and in 1954 it was amended to 20 per cent.

The amendments to this section are in some cases restrictive as I said before, but in some cases they give more authority. There is a new restriction as far as conventional mortgages are concerned, to loans on residential property,—which was not the case before.

Q. I wanted to ask the reason for it.—A. The reason was that it is felt and the banks themselves feel that commercial properties are not suitable types of mortgages for their operations. Most of these mortgages,—in fact I think all of them—are repayable on either a monthly, quarterly or half yearly basis, and they are spaced according to the ability of the borrower to pay, mostly on a five year term, although some of them do run to 15 years.

You will note when you look at the definition of residential property in subsection 2 that it is not entirely restricted to houses but rather to property

of which the floor space is more than one half used for housing, because particularly in the province of Quebec there are a great number of buildings in which there is a store downstairs, and housing upstairs. The object here is not to take that type of property out as security but not to permit loans on solely commercial property which is not usually considered as good a risk. Another restriction here is the limit of \$100,000 on any one mortgage or 60 per cent of the value, whichever is the less; and this is to prohibit banks, let us say, from loaning on large apartment houses, a type of loan which is not considered suitable for this sort of institution.

Q. I have one other question: in relation to subsection (d), loans which may be made under the National Housing Act; could the officials tell us what the total amount of loans made under the National Housing Act is for the two banks?—A. At December 31 the total was \$9,150,000 for the two banks.

By Mr. Cameron (Nanaimo):

Q. Could we be told if the N.H.A. loans have been maintained at a certain level since 1954?—A. They only started in 1954. They were only authorized to start lending at the same time as the chartered banks in April, 1954, and there has been a growth in the amount since that time.

Q. There has not been a decline?—A. No, there has not been a decline, but as these banks do not benefit to a great extent from the expansion of loans, they must derive new funds from their deposits. For instance, they only expanded their assets in the year 1956 by about \$5 million, and therefore the funds available to them for mortgage lending must come in effect from new deposits, and to a certain extent from repayments on investments or other loans.

By Mr. Blackmore:

Q. In respect to subsection (e) and with respect to that number forty, is there any meaning in respect to forty? Is forty the limit in respect to other banks also?—A. First, this is a new departure. To a certain extent what is being done here is to limit the total of mortgage loans, both conventional and N.H.A., to 40 per cent. Prior to these amendments coming into effect the limit is 20 per cent, or at least 20 per cent on conventional mortgages and no limit on N.H.A. mortgages. But that is to be changed by limiting all mortgage loans to 40 per cent of deposit liabilities.

With respect to your question about the chartered banks, the answer is that there is no limit on N.H.A. mortgages, but the banks are not allowed to lend on conventional mortgages.

By Mr. Mitchell (London):

Q. Why is that change being made?—A. First of all the banks wanted greater latitude in mortgage lending, and of this the department approves. But it was felt that there should be an overall limit on the total amount of investment in mortgages.

Q. At the present time as I understand it there is no limit on the investments which they can make under the NHA?—A. That is right.

Q. But there is a 20 per cent limit on all conventional mortgage loans?—A. That is right.

Q. How do they stand at the moment?—A. As of December 31—again quoting figures of that date—they had \$9 million under the N.H.A., and \$20 million of conventional mortgages.

Q. How do these work out normally, percentagewise?—A. Of what?

Q. Of their total authorization?—A. Oh, of their total authorization they are not any place near it.

Q. That \$9 million would be the only one effected?—A. They would be authorized to lend up to about \$100 million.

By Mr. Stewart (Winnipeg North):

Q. Could you tell us what the figures are for mortgages, both conventional and N.H.A. for 1954, 1955, as well as 1956? Have you that information?—A. You want the amount of conventional mortgage loans?

Q. Yes.—A. At the end of 1954 and 1955?

Q. Yes.—A. I am afraid that I have not got that information here.

Q. Could any of the bank representatives inform us?

Mr. VANIER: We have added between \$8 million and \$10 million a year in our mortgages. There is a big demand for them in Montreal and since the great bulk of our people are thrifty people and most of them own property which is expensive, they want a little money with which to buy and to rectify. So we have many applications for loans of that sort, and we thought that we could increase the facilities we have to offer to the public by the amount of our loans. They are increasing by \$8 million to \$10 million a year.

Mr. STEWART (Winnipeg North): There are \$20 million out on mortgages as at December 31, 1956?

Mr. VANIER: Yes. We started in that field only a few years ago.

Mr. STEWART (Winnipeg North): I wondered if you had the figures available as of December 31, 1954 and December 31, 1955?

Mr. VANIER: I believe the difference in the figures would be around \$8 million.

Mr. P. ALPHONSE PERRAULT (General manager, Montreal District and City Savings Bank): In 1954 under the National Housing Act it was \$2,700,000; and at the end of 1955, it was \$5,578,000; and at the end of 1956 it was \$9,113,000.

Mr. STEWART (Winnipeg North): And for the other mortgages, what were the figures?

Mr. PERRAULT: For the other mortgages at the end of 1954, it was \$4,500,000; at the end of 1955, it was \$7,250,000; and at end of 1956, \$15,500,000.

By Mr. Blackmore:

Q. Why was the figure 40 selected rather than 35 or 45? What was the principle upon which the calculation was based?—A. I cannot say that it is very scientific but it was felt that in the present circumstances it would be a safe level and that it could stay at that level for the time being; and if the banks ever reached that level, then we could take another look at it. I cannot give you any scientific reason for it.

Clause 6 agreed to.

By Mr. Macdonnell (Greenwood):

Q. On clause 6, I notice the management of the banks have been so ultra conservative—

The CHAIRMAN: Spelt with a small "c"?

By Mr. Macdonnell (Greenwood):

Q. I would like to think both, but I am not so sure. At any rate they have been so conservative that it would almost seem at first that they could never be anything else. But the figure forty which can apply to conventional mortgages is an overall figure, and it raises this question: at the present time the amount is twenty; the chartered banks are making loans for mortgages only with the guarantee of which we know. That is an invasion of your usual practice, and it may not disappear. However, here we have a situation which could run on to the point when perhaps, when gentlemen who are a little less conservative than those who are now there, would be running the banks, could be running up to 40 per cent in these mortgages. Also we have another figure. You could put \$100,000 into individual residences, as I understand it, and that is a question I would like to get some explanation about. Under the act it could be 40 per cent.—A. To answer your last question first. Quite a bit of this lending may be done on properties which have stores on the ground floor and perhaps two or three residential floors above. It may be done on residences which are being converted into multiple dwelling apartments. The figure of \$100,000 under the circumstances I do not think is an extravagant one. I do draw to the attention of the committee that these mortgages are all on a periodic payment basis.

Q. By law?—A. No. By their own practice, after discussion to a certain extent with the department; and it is for their own safety. The figure of 40 per cent is a very small figure compared with similar situations in the savings banks in the United States where it runs from 50 per cent up to 70 per cent. I notice that there is a proposal before the American House at the present time to set a figure of 80 per cent for federal housing loan associations. One must I think look at this in a different way than one would in respect to the chartered banks. The deposits in savings banks are to a great extent, long term deposits which fluctuate very little. I do not say they are long-term by contract but they are in effect that.

Q. They have always been?—A. Yes.

Q. May I interject and ask a question about the American situation. I am familiar with the fact that mortgages have played a larger part in American banks. Is there any difference in practice there with respect to the withdrawal of deposits. I realize that the last thing the banks intend to do is to take advantage of that. Is there any different practice in the United States?—A. They have notice requirements, and the savings banks in the United States I think rarely if ever permit checking privileges. A great many of them do not; in other words, a withdrawal is across the counter.

Q. I am not sure I appreciate the full effect of that?—A. It has very little effect except perhaps that there might be less variation in the accounts than when checking privileges are allowed. A point which should be drawn to the attention of the committee is that these banks have re-discounting privileges with Bank of Canada, the same as the chartered banks. If at any time there was necessity for obtaining funds they have the same re-discounting, or borrowing privileges, as have the chartered banks.

Q. Will you refresh our memory on that? Would it mean that mortgages were as discountable, let us say, as government bonds?—A. The powers in connection with that are in the Bank of Canada Act. It is quite a long provision.

Q. Will you summarize it?—A. Bank of Canada may lend on the pledge or hypothecation of all classes of security mentioned in the preceding paragraph which in effect takes in all types of securities, mortgages, coin, bullion

and practically any asset which the bank has, with the exception of buildings. The bank can borrow on these securities from the Bank of Canada.

Q. In connection with the value of an individual loan not exceeding \$100,000 you said in practice that would tend almost invariably to be a development to yield revenues but there is nothing to say that.—A. No.

Q. One hesitates to be critical about a technical regulation of this kind which has worked well for a century. However, I confess I would have been happier had it not been 40 per cent or \$100,000, but I feel that there has been a lot of practice to warrant what has been done.—A. There is another protection; 60 per cent of the value. It is whichever is the lesser. So there will always be a value of equity of one-third.

By Mr. Richardson:

Q. Why is the limitation proposed by section 71 being withdrawn?—A. I explained earlier that it was perhaps inadvertently put in the wording of the act previously which set the 6 per cent limit on all loans made by the bank. It is being removed at the present time because the rate of interest on conventional mortgages has passed 6 per cent some time ago and it was found that in fact these people would be out of a mortgage market to a great extent. They are doing a very good job in this field and I should like to see them stay in it.

Clause 6 agreed to.

On clause 7:

7. Sections 81 and 82 of the said Act are repealed and the following substituted therefor:

Poor Fund
of Montreal.

"81. The principal of the Poor Fund of The Montreal City and District Savings Bank, which has been ascertained and settled at one hundred and eighty thousand dollars, shall continue invested and shall be held by the said bank in any of the securities mentioned in section 58.

Charity
Fund of
Quebec.

82. The principal of the Charity Fund of La Banque d'Économie de Québec, The Quebec Savings Bank, which has been ascertained and settled at eighty-three thousand dollars, shall continue invested and shall be held by the said bank in any of the securities mentioned in section 58."

By Mr. Cannon:

Q. I am interested in clause 7 because it shows evidently that these banks have a good sense of social obligations written into their charter. That does not mean that the other banks do not do likewise because we know that they contribute when drives are made for charity. I would like to know if these funds have existed since the inception of these banks and what is the custom of the banks in dealing with these funds.—A. These funds have a very interesting history. When these banks were incorporated by the federal charter in 1867 they had free surpluses. They were mutual organizations at that time and the surplus in effect did not belong to anybody unless perhaps it could be refunded to the depositors or the borrowers in some way. Therefore the arrangement was made that the surpluses should be set up in each case as a charity fund and it has remained so by statute ever since. The income from these funds is distributed annually to a list of charities in the respective cities. The list of charities is approved by the board of directors.

Mr. CANNON: Thank you very much.

Clause 7 agreed to.

Clause 8 agreed to.

Clause 9 agreed to.

Title and Bill agreed to.

The CHAIRMAN: Shall I report the bill without amendment?

Agreed.

(The subsequent proceedings of this day were devoted to Bill No. 158, an Act to amend the Municipal Grants Act, and will appear in Issue No. 2 of the Committee's *Minutes of Proceedings and Evidence*.)

Doc Canada, Banking and Commerce, Standing
Committee
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HOUSE OF COMMONS

CAIXE P3
- 1311

Fifth Session—Twenty-second Parliament

1957

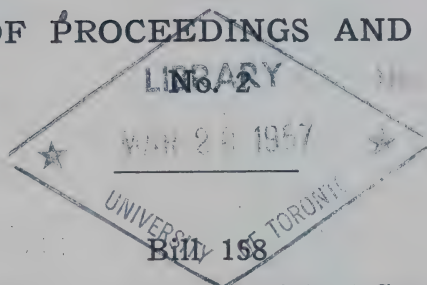
STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE



An Act to amend the Municipal Grants Act

THURSDAY, FEBRUARY 28, 1957 (*Continued*)
TUESDAY, MARCH 5, 1957.

WITNESS

Mr. R. M. Burns, Director of Municipal Grants and Federal-Provincial
Relations, Department of Finance, Ottawa.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Fraser (<i>St. John's East</i>)	Philpott
Ashbourne	Fulton	Power (<i>Quebec South</i>)
Balcom	Gour (<i>Russell</i>)	Quelch
Bell	Hanna	Richard (<i>Ottawa East</i>)
Benidickson	Henderson	Richardson
Bennett	Hollingworth	Robichaud
Blackmore	Huffman	Rouleau
Cameron (<i>Nanaimo</i>)	Low	St. Laurent (<i>Temis-</i>
Cannon	Macdonnell (<i>Green-</i>	<i>couata</i>)
Crestohl	<i>wood</i>)	Stewart (<i>Winnipeg</i>
Deslieres	MacEachen	<i>North</i>)
Dumas	Macnaughton	Thatcher
Enfield	Matheson	Tucker
Eudes	Michener	Viau
Fairey	Mitchell (<i>London</i>)	Weaver
Fleming	Monteith	Winch
Follwell	Nickle	
Fraser (<i>Peterborough</i>)	Pallett	

A. Small,
Clerk of the Committee.

ORDER OF REFERENCE

FRIDAY, February 22, 1957.

ORDERED

That the following Bill be referred to the said Committee:
Bill No. 158, An Act to amend the Municipal Grants Act.

LEON J. RAYMOND,
Clerk of the House.

Attest.

REPORT TO THE HOUSE

TUESDAY, March 5, 1957.

The Standing Committee on Banking and Commerce begs leave to present the following as its

THIRD REPORT

The Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 158, intituled: "An Act to amend the Municipal Grants Act".

A copy of the Minutes of Proceedings and Evidence relating to the said Bill and to Bill No. 106 (which was reported to the House on February 28, 1957), is tabled herewith.

Respectfully submitted,

J. W. G. HUNTER
Chairman.

MINUTES OF PROCEEDINGS

Part 2 for THURSDAY, February 28, 1957.

The Standing Committee on Banking and Commerce, having met at 11.00 a.m. and having completed consideration of Bill No. 106, resumed its proceedings to consider Bill No. 158 at 11.30 a.m. Mr. J. W. G. Hunter, Chairman, presided.

Members present: Messrs. Ashbourne, Balcom, Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Cannon, Dumas, Enfield, Eudes, Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell (*Greenwood*), Michener, Mitchell (*London*), Pallett, Philpott, Richard (*Ottawa East*), Richardson, Robichaud, Stewart (*Winnipeg North*), and Weaver. (26)

In attendance on Bill No. 158: From the Municipal Grants Division, Department of Finance, Ottawa: Mr. R. M. Burns, Director; assisted by Mr. C. H. Blair and Mr. D. H. Clark.

Bill No. 158, "An Act to amend the Municipal Grants Act", was called for consideration.

Mr. Burns was called and outlined the purpose of the Bill, being assisted by Messrs. Blair and Clark.

On Clause 1:

The witness was questioned by the Committee in detail. It was agreed to allow this clause to stand for further study by the legal officials of the Department of Finance and for their recommendations to be given to the Committee at its next meeting.

The Committee agreed that the proceedings on Bill 106 and Bill 158 be printed separately in view of the postponed consideration on the latter Bill.

Mr. Richard (*Ottawa East*) raised a question of better lighting, ventilation, and temperature control for Room 118. It was accordingly agreed that the appropriate authorities be informed of this situation by the Clerk of the Committee.

At 1.00 p.m., the Committee adjourned until 11.30 a.m., Tuesday, March 5, 1957.

TUESDAY, March 5, 1957.

The Standing Committee on Banking and Commerce met at 11.30 a.m. Mr. J. W. G. Hunter, Chairman, presided.

Members present: Messrs. Ashbourne, Balcom, Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Cannon, Crestohl, Fairey, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Hollingworth, Huffman, Hunter, Macdonnell (*Greenwood*), Macnaughton, Matheson, Michener, Monteith, Pallett, Philpott, Power (*Quebec South*), Quelch, Richard (*Ottawa East*), Robichaud, St. Laurent (*Temiscouata*), Weaver, and Winch. (31).

In attendance: From the Municipal Grants Division, Department of Finance, Ottawa: Mr. R. M. Burns, Director, assisted by Mr. C. H. Blair and Mr. D. H. Clark.

The Committee resumed consideration of Bill 158, An Act to amend the Municipal Grants Act.

On Clause 1:

The Chairman read into the record a statement, prepared by the Department of Finance in consultation with the Department of Justice, relating to Section 2 (c) (v) of the present Act which defines "federal property". The witness was questioned thereon.

Clauses 1 to 9 inclusive were considered clause-by-clause and adopted.

The Title and the Bill were adopted.

Ordered, —That the Chairman report the said Bill to the House without amendment. (See *Third Report*).

The witness was retired.

At 12.35 p.m., the Committee adjourned to meet again at 11.00 a.m. on Thursday, March 7, 1957, to deal with private bills.

A. Small,
Clerk of the Committee.

EVIDENCE

THURSDAY, February 28, 1957.

Morning Sitting (*Continued*)

The CHAIRMAN: Gentlemen, the next is Bill 158, an Act to amend the Municipal Grants Act. We have here Mr. R. M. Burns, director of the Municipal Grants division of the Department of Finance, assisted by Mr. C. H. Blair and Mr. D. H. Clark of the same division.

Gentlemen, if it is agreeable to you I would ask Mr. Burns to outline the purport of this bill and then you may ask any questions before we proceed with the clauses of the bill.

Mr. BENIDICKSON: Mr. Burns is the director of the dominion-provincial relations section of the Department of Finance and under him the Municipal Grants Act is administered by Mr. Blair and Mr. Clark. This is a division in the department which includes relations with the provinces and now, because of this legislation, relations with respect to taxes with the municipalities.

Mr. R. M. Burns, Director of Municipal Grants Division, Department of Finance, called:

The WITNESS: Mr. Chairman, the real basic purpose of this bill is included in the provision for the elimination of the 2 per cent floor which has applied since 1955. As you recall, when these provisions were first made in 1950 there was a 4 per cent floor over which the payments were paid on federal property which was subject to grants for municipal taxes. In 1955 this became 2 per cent. The effect of this bill over-all is to eliminate this 2 per cent so in effect we will be paying grants to the municipalities equivalent to full municipal taxes subject to the exceptions in the bill which are in almost all cases the same as had been included previously. There are some minor changes but they do not affect the principle of the bill.

The CHAIRMAN: Gentlemen, are there any general questions?

By Mr. Dumas:

Q. Will you pay the tax on the assessment as fixed by the municipalities?—

A. No. The tax is paid, as defined in the act, on the accepted value. In 99 cases out of 100 this is the same as the assessed value, but we do not automatically accept the assessed value as stated by the municipalities.

Mr. MACDONNELL (*Greenwood*): This bill was discussed at the resolution stage and we tried to make clear that we regard it as the feather duster when what is needed is a full housecleaning. In particular we intend to say something about the illusive and irresponsible acts of the crown corporations who tend to horsetrade. We will have something more to say as we go through the bill.

By Mr. Bell:

Q. Could we have some information as to exactly how you negotiate any contracts which you make with the municipalities, when the cheques are paid, and a general statement for information?—A. The system which has been followed in the past has been that the municipalities make an application, and

included in their application is their valuation, which will indicate to us whether they are likely to qualify under the present 2 per cent level. The practice then has been for us to send, at least in the instance of the first application, one of our assessors to the municipality whose job it is to ascertain whether our property is being assessed on the same basis as is other property in that municipality. We only concern ourselves with the assessment in that locality to see that the federal assessment is the same as the assessment on other property.

Having accepted the value for the purposes of the act, and having determined what services are being supplied to the federal government on its own behalf, the grant is then calculated and normally it is made in one payment. But in certain cases such as in Ottawa and Halifax and one or two others, where very large payments are made, we have been in the habit of making an advance payment during the course of the year because it has been impossible to calculate it at the time the taxes are normally payable.

By Mr. Macdonnell (Greenwood):

Q. Your sole inquiry is to find out whether the property is assessed on the same basis as other properties?—A. Yes.

Q. You do not concern yourselves with finding out whether or not the property in X municipality is being assessed on the same basis as in Y municipality?—A. No. We are only concerned with the assessment in the particular municipality. We are not interested in any equalization of assessment in any province or area.

Q. Then the phrase "effective rate" which is contained in the act means the rate that in the opinion of the minister would be applicable.—A. That is referring to the tax rate, not the assessment. It has to do really with a few special cases. I think we could explain that in some detail now or later.

Mr. ENFIELD: Could we have a statement as to what is meant by federal property. I notice that there is a definition section here but it is very complicated. Do you wish, Mr. Chairman, to leave that until we reach the clause?

The CHAIRMAN: Yes.

By Mr. Michener:

Q. Is the basis of assessment throughout Canada reasonably uniform so that this act can operate and be applied in all the provinces, without too much difficulty?—A. That is practically the basic reason why we use our own assessment, because they are completely non-uniform. We have to stay within the pattern established in a particular municipality.

Q. You are not seeking uniformity but are reserving to the minister the right to say what the basis of assessment is? You are seeking to assess the federal property in conformity with other properties in the locality?—A. Yes. We are seeking equal assessment within the municipality.

Q. If you allowed the municipal assessor to have a free hand he might think federal property was a little more valuable than adjoining property?—A. Yes. Generally speaking now, since the act has come into force, we have very little trouble. In the case of Ottawa I think we have only two or three properties in dispute.

Q. Could you not find any other way of dealing with it than this right of absolute power of the minister?—A. Do I understand that you are referring to this new effective rate?

Q. Yes.—A. That has to do with a special case. In almost every case we will accept the rate of the municipalities. There are a few municipalities

where special circumstances require some discussion. Halifax is a typical example where there are two rates, one for commercial property and one for residential property. It requires some judgment as to what class property comes under.

Q. In practice under this act would you invite the municipality to give you an assessment notice just as it does to others?—A. We usually receive the assessment notice, although we do not require it. We require that they file an application and give us the assessed value of the property which amounts to the same thing.

Q. And from that point you endeavour to determine whether or not there has been a fair assessment?—A. Yes.

Q. And the minister has the discretion to fix the accepted value. Have you calculated the additional amount of money which will be paid to the municipalities under this bill as compared to last year?—A. We anticipate it will be just about doubled, but we do not know, frankly, what the accepted value of our property is in all the municipalities.

Q. What is the total grant paid this year?—A. About \$9,500,000. We anticipate that it will run somewhere between \$16 and \$20 million, probably \$18 million or \$19 million.

Q. That is on the basis of the definition re property contained in the amending bill.—A. Yes.

Q. Which excludes all crown corporations?—A. Crown corporations are not concerned in this bill at all.

Q. Will you tell us what is the practice in respect to real estate and crown corporations, and how the crown corporations are taxed now or how the equivalent of the taxes is paid by them. Is there a uniform practice?—A. No, there is not, sir. There are a great variety of practices. It is complicated by the fact that there are a great many statutory exemptions. The C.N.R. has statutory exemptions given to it by the provinces. These statutory exemptions refer back to some of the old private railway companies that have since been taken over by the existing company.

Mr. BENEDICKSON: The C.P.R. also has similar exemptions, which makes it very difficult.

By Mr. Michener:

Q. Take for an example a corporation such as Polymer.—A. Polymer pays full taxes.

Q. They pay full taxes?—A. Yes, almost, if not completely.

Q. They do that voluntarily, do they?—A. Yes. There is no legal liability upon a crown corporation to pay taxes.

Q. Are there any that do not pay taxes, other than those that are exempted by provincial or municipal law?—A. As far as I know, sir, there are none that do not pay something. There are some that do not pay the equivalent of full taxes.

Q. What I am driving at, Mr. Chairman, is that here is a bill which accepts an obligation, in respect of federal property, to pay the equivalent of the normal municipal taxation. But, it does not bring all federal property in. It leaves out the properties of the crown corporations. Apparently the principle, that they should pay the same rate of tax, is acceptable, and I wondered why it was not possible to bring them all under the same law rather than leaving it to the discretion of the corporations to make their own deals.

Mr. BENEDICKSON: That problem is being considered as a result of the elimination of this 2 per cent floor. But it is very complicated because of the difference in the roles of these corporations. As I say, if you do anything

about the C.N.R., it has to be considered on the basis of the relationships of its competitor and what the C.P.R. has in the way of statutory tax exemptions. You have the same thing in the nature of the National Harbours Board. The functions of these crown companies are so different that it takes a long time to arrive at some firm decision. But, it is being studied as a result of this bill.

Mr. MICHENER: Yes, and the principle on which it is being studied is that all crown property, which is receiving municipal services, should pay, even though they are not directly owned by the crown. When that is accomplished, it will remove, it seems to me, the inconsistencies or weaknesses of this present legislation.

The CHAIRMAN: It is a principle that has not been recognized in the provinces yet.

Mr. MICHENER: The province of Ontario has been paying taxes on provincial property since 1952, I think, but I am not just sure how far it goes.

It seems to me that we have a sound principle in removing exemptions, which the crown has had from time immemorial, with respect to paying for the services which the municipalities supply. We ought to try to make it as inclusive and complete as possible. I have been looking at the bill from that point of view. We are told that some crown property, which is in all respects the same as that owned directly, but which is owned by a corporation, is dealt with by negotiation, or by the application of what the directors see fit to do.

The CHAIRMAN: I think it is just part of the problem that has baffled them so far. It would be quite difficult to work out some formula of taxing the Ontario Hydro in every municipality, and so on. It would be a big task. I am not saying it cannot be done. It probably will be done eventually.

Mr. MACDONNELL (*Greenwood*): I think this has a bearing on this issue, and if I may be allowed to read from the definitions in Clause 1, that which appears on the top of page 2—

The CHAIRMAN: I wonder, Mr. Macdonnell, if we could have the detailed questions when we come to the sections?

Mr. MACDONNELL (*Greenwood*): The only thing is, we are discussing the principle applied to crown corporations, and if I might be allowed to read this I think it has a bearing on it.

The CHAIRMAN: We are discussing the principle applied to crown corporations, but actually it has nothing to do with this bill, has it?

Mr. MACDONNELL (*Greenwood*): I think if I read this subclause, Mr. Chairman, you may think that it has.

If I read it correctly, it does not include: "real property under the control management or administration of the National Railways as defined in the Canadian National-Canadian Pacific Act, or a corporation, company, commission, board or agency established to perform a function or duty on behalf of the Government of Canada."

The CHAIRMAN: Yes.

Mr. MACDONNELL (*Greenwood*): That seems to me, by this wording, to exclude crown corporations. Is that the way you read that?

The CHAIRMAN: Yes.

Mr. MACDONNELL (*Greenwood*): They exclude them.

The CHAIRMAN: Right.

Mr. MICHENER: I have been thinking about the same difficulty that we have been discussing here, and how it can be dealt with. This bill is a

bill to permit the payment of grants from consolidated revenue. It is obviously proper that these corporations, if they are made subject to the same principles, should pay a municipal tax from their own funds. So, you cannot just put them in the bill and say that the Minister of Finance will pay their taxes for them out of consolidated revenue. I take it that that is the problem—how to deal with them. That is what is under study.

The CHAIRMAN: Yes, although I think it is pretty well accepted now that there is a general principle, at least federally, that crown corporations should be in a taxable position the same as ordinary corporations are, and pay income taxes, and so forth.

Mr. MICHENER: I think it is proper that they should be. I am glad to have that view confirmed here, and to hear that it is being dealt with.

By Mr. Philpott:

Q. Could we have a brief statement from Mr. Burns giving us a statement of what the provinces pay to their own municipalities in that regard?—A. It is a very long statement, Mr. Philpott, but I have it here if you care to have it read.

Q. Could we have the highlights of it?—A. The province of Ontario pays the equivalent of a general, but not school rates on its own property, including that owned by its crown agencies. It pays business taxes in the case of a crown agency operating its business on the land, and it usually pays the local improvement taxes.

Ontario Hydro pays general and school rates only on its executive and administrative property, not upon its operating plant.

It sets its own valuation the same as we do, by the Department of Municipal Affairs.

In Manitoba, the provincial utilities pay full tax on lands and buildings erected thereon. The province pays full tax on land, but nothing on buildings.

Saskatchewan pays full tax equivalent of business taxes on crown corporations, but not on those of the Saskatchewan power corporation. All the payments are based on local assessed values. It pays nothing on government properties, as such.

Alberta pays full tax equivalent on property occupied by the Liquor Control Board or Marketing Services Limited, but pays nothing on government properties.

The British Columbia Power Commission pays to the municipality three per cent of its gross revenue in lieu of property taxes. The Liquor Control Board pays actual taxes of the municipality. The province does not pay anything to any municipality other than a grant of \$50,000 a year to the city of Victoria as a beautification grant.

Quebec's provincial crown corporations pay water rates, maintenance rates, and special local rates, but do not pay anything on general or school rates.

The province of New Brunswick does not pay anything except a few small local rates, but nothing on general taxes, or school rates.

The province of Nova Scotia is the same as New Brunswick, except that the Liquor Commission does pay tax equivalents on its properties.

In Prince Edward Island there are no municipal taxes paid by the provincial government.

By Mr. Fraser (St. John's East):

Q. What have you to say with regard to Newfoundland?—A. I do not think Newfoundland pays anything. There is only one municipality in Newfoundland that has a real property tax, and that is St. John's. They actually have very limited municipal responsibilities, in terms of the rest of the municipal responsibilities in Canada.

Q. No payments are made?—A. Not directly in property taxes.

By Mr. Bell:

Q. Have you any relative percentage figures? Do you have any figures available with respect to federal and provincial taxes in the provinces, of any kind, that would be helpful to us?—A. You mean in relation to what we pay and what the provinces pay?

Q. Yes.—A. I do not have anything. I would say that Ontario is probably the most complete of the provinces in their payments. I would think that they are paying in the neighbourhood of probably 45 or 50 per cent, because they do not pay school taxes. That is just a guess. We will be paying, I would think, 100 per cent on properties that we accept for taxation.

Incidentally, Ontario's exclusions are very much the same as ours. They do not pay on museums or parks.

Mr. MICHENER: Of course, Mr. Chairman, the comparison is not altogether realistic as between the provincial crown property and the federal crown property, because the provincial governments do make direct grants to municipalities, and they do have a responsibility for making grants in respect of roads, education, and other matters of that kind.

The CHAIRMAN: Two mills on residences.

An Hon. MEMBER: You are from rich Toronto.

The CHAIRMAN: That has not put much money in my pockets.

Any further general questions?

Mr. MICHENER: I was just looking at the Ontario budget, which was brought down last week, and the percentage of the total revenues that were applied to municipal grants was over 40 per cent last year, and I think will be more again this year. This is a great amount of money that is transferred from the provincial governments. I think the same is true of all the provinces. Every year this amount of money gets bigger, largely because the municipalities have not got the revenue. This is one of the sources of revenue that has been held from them all too long, but they now have the opportunity to put it into legislation.

The CHAIRMAN: I think, Mr. Michener, we are all fairly familiar with that subject.

Mr. MICHENER: I dare say we are, Mr. Chairman. That was just an answer to a question—

Mr. ENFIELD: An answer to your own question.

By Mr. Pallett:

Q. Mr. Chairman, I wonder if Mr. Burns could tell us how much the federal government has received in sales taxes from the municipalities and from boards of education? Do you know the total amount?—A. I am sorry; I have no idea.

Q. I was just wondering how that figure could be arrived at.—A. I do not imagine that anyone could tell you that. I do not suppose such a breakdown is made.

By Mr. Cannon:

Q. I just wanted to clarify this: did Mr. Burns say that the government of the province of Quebec only pays water taxes?—A. No. I said that they paid water rates, maintenance rates, such as street cleaning, snow removal, and frontage taxes, and special taxes. They pay a portion of local improvement

costs charged to the municipality in respect of local improvements on Quebec properties, but they do not pay anything in respect of the general rate or the school rate.

Q. They do not pay either the general rate or the school rate?—A. No.

By Mr. Bell:

Q. Mr. Chairman, may I ask if a dispute over whether a property is excluded from the act is handled in the same way that you negotiate a payment? In other words, does it move along until it finally has to go to the minister for a decision?—A. That is what ultimately happens. It very rarely goes that far. Ottawa is the typical example, where we have the largest problem, but we have always managed to reach an amicable settlement.

Q. There were two or three cases that you mentioned in respect to Ottawa.—A. These were property values.

Q. They were not disputes over whether property should be excluded under the act?—A. No. I would not suggest that they necessarily always agree with the final decision, but I would say that normally we reach a reasonably amicable agreement.

Q. You would think that many municipalities would press, to the last minute, a proposal in respect to the inclusion of a property under the act?—A. I think they probably do, so long as there is a doubt, but I think the act is reasonably clear as to what can be included, and what is excluded. Federal property is not the only exclusion that the municipalities have difficulty with.

The CHAIRMAN: If there are no further questions—

By Mr. Cannon:

Q. To follow up with my line of thought—you said that Ontario paid about 45 per cent, if I understood you correctly.—A. I said that was the rate, because they did not pay school taxes.

Q. In respect of Quebec, what would the percentage be there?—A. I could not give you any idea at all, because these are a series of local taxes that I have no figures on whatsoever. I would not want the figure I gave with respect to Ontario to be taken with any great weight, because it is just a guess.

The CHAIRMAN: You are not trying to infer that your own province is backward, are you Mr. Cannon?

Mr. CANNON: No, I was just trying to get some very useful facts.

The CHAIRMAN: If there are no further general questions we will get on to the bill.

By Mr. Mitchell (London):

Q. How many municipalities are there where they have this varying assessment arrangement as between different classes of property such as residential and industrial?—A. Not very many.

Q. As I understand it, this section is designed only for the specific municipalities, is that right?—A. That is where we will have to make use of the effective rate. The rate in every municipality will be the actual rate that is applied to any property. Generally this will be the one rate. In Quebec, for instance, there is more than one rate. There is a rate sometimes for corporations, and a rate for individuals. Usually they are not very far apart. In such a case we would take the status of a corporation. We would have to make a selection there. But, there is no rule that you can write into the act. That is why a discretion had to be taken.

Q. Are there any municipalities in the provinces, other than Quebec, that have a similar situation?—A. Halifax is the biggest example.

Mr. ENFIELD: Mr. Chairman, I wonder if we could now have this review of the definition of federal properties, because this definition here is quite complicated? Perhaps he could give us the meaning, and outline what is considered to be federal property?

Mr. MICHENER: I wonder, Mr. Chairman, if we could deal with Clause 1 of the bill, which is the most important one, by breaking it down into the individual subclauses, and we can get our explanation as we go through them, as to what these exemptions are?

The CHAIRMAN: I read the clause, and it did not seem very ambiguous to me.

Mr. MICHENER: There were questions I wanted to ask with respect to the individual subclauses Mr. Burns could give his explanation in respect to the subclauses one by one, then we could ask our questions.

The CHAIRMAN: Gentlemen, we did pass clause 1, but without prejudice, let us get back to clause 1. Are there any questions you want to ask on it?

Mr. MICHENER: You mean by clause 1, "The Effective Rate"?

The CHAIRMAN: Clause 1 covers practically everything.

Mr. MACDONNELL (*Greenwood*): If that is your ruling, Mr. Chairman, I would like to ask about sub-paragraph 4. I would like to ask about "a self-contained defence establishment". I am reading from the explanatory note. It would exclude self-contained defence establishments; and taken in conjunction with the explanation given at the end of paragraph (c) it would allow two classes of crown property in such establishments to qualify for payments, that is, (1) land exclusive of improvements, and (2) dwellings occupied by federal employees or members of the Canadian forces. Might we have a word of explanation from the witness as to how that would work out, and if it would exclude self-contained defence establishments?

The CHAIRMAN: Like Camp Borden!

The WITNESS: Camp Borden is typical of a self-contained defence establishment. There are 13 or 14 principal ones in Canada. They would be completely independent of the municipality for their own services. They would provide their own sewers, water supply, and everything else. We do not feel it would be logical to pay normal grants in the municipalities where we have in many cases up to 95 per cent of the total value of the property.

By Mr. Michener:

Q. Might we be given a list of them?—A. There is Shearwater in Halifax; Camp Borden; Camp Petawawa; the Trenton Air Station; Centralia in the township of Stephen in Ontario; Shilo in Manitoba; Rivers, in Manitoba; Dundurn in Saskatchewan; Camp Wainwright in Alberta; Chilliwack in the township of Chilliwack in British Columbia, and there are others.

The CHAIRMAN: Obviously, Gagetown.

By Mr. Bell:

Q. Gagetown is operated under a separate arrangement, is it not?—A. Yes. It is specially referred to later; and also Oromocto which comes under a separate act. By an agreement between the province of New Brunswick and the Department of National Defence, it is being handled outside this act entirely.

By Mr. Macdonnell (Greenwood):

Q. It excludes self-contained defence establishments, but in conjunction with paragraph (c) it would allow two classes of crown property in such

establishments, that is, land exclusive of improvements, and dwellings occupied by federal employees or members of the Canadian forces. It is from such establishments that I am taking exception.—A. It is the land under such establishments.

Q. Would that apply to Camp Borden?—A. Yes; the land at Camp Borden would be subject to a grant. The reasoning behind it is that it is taken out of taxation. Therefore there must be recompense due to the municipality.

Q. And would it be the same with regard to dwellings occupied by federal employees at Camp Borden?—A. No. Under Ontario law they are taxable as tenants; therefore in that case the municipality would try to collect from them as taxable tenants and we would pay a grant to the municipality in respect to those people.

Q. I thought they got nothing from Camp Borden?—A. No, they get quite a substantial grant.

By Mr. Pallett:

Q. What is the situation with respect to air force runways? Are they excluded?—A. They are excluded under the original definition of the act which makes federal property include improvements to land for shelter of persons and property. In other words, engineering works—and airports are a typical example—are not taxable, and they do not rate as federal property for this purpose. We would pay on the land under the runways and on hangars and so forth, but not on the runway itself.

Q. What might be the remedy for the township of Toronto which would not collect taxes for Malton airport, if the land were transferred to the Department of Transport? There would be a municipal loss of taxes there, quite conceivably.—A. The land under the runways would be taxable but not the runways themselves. I do not know on what basis it is done there.

By Mr. Robichaud:

Q. And what about warehouses at public wharves?—A. Warehouses, yes, but not wharves.

By Mr. Macdonnell (Greenwood):

Q. You used a phrase "land taken out of taxation".—A. In respect to special establishments the municipality loses the right to tax.

Q. It would seem to me that it would apply to a runway just as much as it would to a hangar.—A. I exclude the runway per se, but the land on which the runway is made would be included.

Q. Under the principle which you laid down, would you not need to include the runway as well?—A. The runway, having regard to the land under it, yes; it would be taxable; but not the improvement to the land on account of laying cement or whatever it might be.

By Mr. Michener:

Q. With respect to sub-clause (v) in this clause, at the top of page 2, the excluding section which deals with crown corporations, companies, and commissions, boards or agencies established to perform a function or duty on behalf of the government of Canada—what I have been trying to devise here is an amendment which would not exclude them. However, in the light of what has been said here today, I take it that we can rely on the fact that consideration of this problem is going forward actively, as Mr. Benidickson has said. In the light of what is going on perhaps it would be better to leave the matter for special attention because I do not see any way in which we could deal here with the problem in a rough and ready amendment such as would

make the property of these corporations which are not subject to a grant here taxable like that of any individual. It would run into all kinds of difficulty in the future, so I am not proposing to make any amendment.

The CHAIRMAN: I think it is something which would definitely require considerable study.

By Mr. Michener:

Q. Yes, and I merely wish to call attention to the assurance we have been given.

Mr. ENFIELD: A commission, board or agency would include the post office, would it not?

The CHAIRMAN: I would not say that the post office was an agency. I would say that it was crown property.

Mr. ENFIELD: Then what about the air transport board?

The CHAIRMAN: If they were to sit in a government building here, then it would become taxable.

The WITNESS: We use in most instances the definitions which are given in the Financial Administration Act; there are four classes of crown corporations defined. If they come within the definitions of the act then they can collect. There are schedules (A), (B), (C) and (D) but we pay on class (A) corporations only.

By Mr. Michener:

Q. In the public accounts there is a list of 24 corporations, special agencies and boards. They are all separate entities and they are established by law.

The CHAIRMAN: You should try to establish yourself in this as a member of parliament. You might be considered to be an agent of the government.

By Mr. Bell:

Q. Would it be practical to set out in the advance clauses of this bill just what you mean by "board or agency"? Would that be possible?—A. I would not like to answer that question not being a legal draughtsman. I think it might be very difficult.

By Mr. Pallett:

Q. I think it is very difficult to combine; it is certainly subject to interpretation. Officials of the department might change from time to time and give different interpretations to these things. But if it could be put in, along with a reference to the Financial Administration Act, then why not? That act is restrictive in its definitions.

The CHAIRMAN: Well, it has not caused any difficulty so far, and it has been in since the beginning; it is not new. I do not think there has been difficulty in interpreting it.

By Mr. Michener:

Q. The word "agency" is used in that respect and it also appears in the public accounts. It is very clearly defined. The thing which concerns me in this clause are the words "real property under the control, management, or administration . . ." of this corporation. It might be pretty conflicting.

The main definition says any "real property"; and after the word property, we have the words "owned by Her Majesty in right of Canada. . . ." Suppose you have an agency occupying it and therefore controlling real property owned by Her Majesty in right of Canada. Thus you have conflicting provisions because

under one section you make the land federal property; and for example property under the control of the Air Transport Board would be excluded under sub-clause (v) so there would be a conflict.—A. I suppose you could visualize a case where a conflict might arise. I have had no experience however with any such conflict and I have not given a great deal of thought to the wording of it. This was drafted when the original draft was written and it has been operating since in that manner. I would not say there have not been disputes about what crown corporations should pay, but we have not had any trouble about what were crown corporations and what were not.

The CHAIRMAN: I think that a crown corporation is a pretty clear thing. But when you get into an agency, you might have something which was on the border line.

By Mr. Michener:

Q. I am satisfied with the words which describe these entities; but you might have one of these corporations occupying land with respect to which you make a grant under this act; and then this clause we are dealing with would appear to exclude part of that property, where it says that it is under the control of the crown corporation.

The CHAIRMAN: It not only appears to exclude it—I think that it does!

Mr. MICHENER: I do not think that it is intentional. For example, suppose that the West Block is the subject of a grant. If the Canadian Broadcasting Corporation were to occupy the top floor, how would you deal with it? Would you exclude the top floor, or would your grant be on the whole property?

The CHAIRMAN: I think we must ask the witness. I do not know.

The WITNESS: In that case it would still be administered by Public Works and we would continue to include it. Any arrangement made would have to be worked out by the C.B.C. and Public Works as between themselves.

By Mr. Michener:

Q. The wording seems to be too broad but I cannot suggest any improvement. I simply draw it to your attention.

By Mr. Enfield:

Q. What about the building occupied by the Department of Transport?—A. This apparently is one that they are concerned with at the moment. I think that telecommunications are an emanation of the C.B.C. That is my understanding; and in that case it would come under any grant made through them.

Q. What about the building occupied by the Department of Transport?—A. I cannot give you a ready answer offhand.

By Mr. Stewart (Winnipeg North):

Q. Would this legislation exclude the National Museum in Ottawa?—A. Museums are specifically excluded under the definition of federal property. Sub-clause (ii) includes a "park, historical site, monument, museum, public library, art gallery or Indian reserve".

Q. What arrangement do you have with respect to the city of Ottawa in that regard? Do you pay them a grant?—A. No. It is excluded completely. That is pretty much in line with normal municipal policy. Municipalities do not normally tax museums, parks, and that sort of thing.

By Mr. Michener:

Q. I am still puzzled about this question of an apparent conflict between properties owned by Her Majesty in right of Canada, and then, coming to subclause (v) "real property under the control, management or administration of the National Railways" and so on. These crown corporations apparently would have to have title if they have control, management or administration, and then they are excluded. Is there not a conflict there and should it not be resolved?

Mr. RICHARDSON: I would suggest that Mr. Michener read the paragraph more closely. The description "under the control, management or administration" refers to the national railways as defined in the Canadian National-Canadian Pacific Act. I think that is the cause of his being puzzled.

Mr. PALLETT: I suggest that you read it again yourself.

Mr. RICHARDSON: It says "real property under the control, management or administration of the national railways..."

The CHAIRMAN: And it goes on to say "or a corporation, company, commission, board or agency..."

Mr. RICHARDSON: They also are included.

The CHAIRMAN: My interpretation would be—and I am not posing as an authority—that down to the word "act" it is under the control, management or administration of the national railways as defined in the Canadian National-Canadian Pacific act. It may be that you should have a semi-colon there. I do not know.

By Mr. Michener:

Q. It must be under the control of a corporation, company, commission, board or agency; but I think that the ownership would be the real test rather than the control or management.—A. I think your difficulty here would be with the property of the Canadian National Railways where a good many of the lines are not owned by the Canadian National Railways but are government lines operated by the Canadian National Railways. But on those lines that they do own and operate they pay taxes and they are taxable. However, in some cases they are holding lines as operating agencies of the crown and they are excluded under this clause. However, frankly speaking, I am not competent to discuss legal problems of the Canadian railways in this regard.

By Mr. Bell:

Q. I understand that the cities of Halifax, Moncton, and St. John at least are negotiating with the railways and the federal government. I do not know if it is being done through the Department of Transport or through the Department of Finance. Now where does the federal government come in? Do they come in because the C.N.R. is responsible to the Department of Transport in that respect or because of the Department of Finance?—A. It has no connection with this act. It would be purely in connection with their status with the Department of Transport.

By Mr. Cameron (Nanaimo):

Q. On this section the thought occurred to me, supposing I owned a building and a government agency decided that they wanted not to buy it from me but to rent it; would I enjoy the special privilege of not only getting a rent from the government but also an exemption from municipal taxes?—A. No. You would be taxable as the owner.

Q. Then supposing after I had rented it it came under the control and management of a corporation?—

The CHAIRMAN: That does not prevent it being subject to municipal taxes under the municipal act.

The WITNESS: That is right.

By Mr. Macdonnell (Greenwood):

Q. In connection with the point raised by Mr. Richardson, it does seem to me there is a question. I am inclined to agree with you that we do not need to read in the words in line four at the top of page two "or under a corporation, company, commission". That is not my reading. It seems to me it is a possible reading. I do feel that it is in need of clarification.

The CHAIRMAN: If you want to take an explanation of real property under the control, you could probably bring in any property in Canada because they are all under the control of the Department of National Revenue. Are they not?

Mr. MACDONNELL (*Greenwood*): I do not myself think that the words under that paragraph contain the meaning which has been suggested.

The CHAIRMAN: So far it has not caused any trouble. While I know things do occur sometimes I would be inclined to leave it alone. It has been working. That is the answer.

By Mr. Pallett:

Q. How many municipalities have ever gone into the matter with the department? If they send in their claim for municipal taxes and you adjust it do they usually accept your adjustment?—A. In most cases. On one or two occasions we had a slight argument with Ottawa on a couple of points which were resolved. In most cases we reach a mutually satisfactory decision.

By Mr. Macdonnell (Greenwood):

Q. There are a lot of the new municipalities which will be brought in?—A. Yes. Eight or nine hundred.

Q. There is a chance that the lawyers will get into this on questions of interpretation.

By Mr. Robichaud:

Q. What about lighthouse properties?—A. If the lighthouse is within a municipality, which I understand it very rarely is—

Q. A lot of them are.

The CHAIRMAN: The ones on the mainland.

The WITNESS: There would be no reason why they would be excluded.

By Mr. Robichaud:

Q. The home occupied by the lighthouse keeper?—A. That would definitely be included.

Mr. PALLETT: In connection with Mr. Enfield's suggestion with respect to paragraph 1, what is the difficulty in that?

The CHAIRMAN: I do not like putting wording into an act unless it is absolutely essential and unless a great deal of study has been given to it. You could easily create a new problem.

Mr. ENFIELD: Can we have the assurance that in view of the fact that eight or nine hundred new municipalities are coming in that the department has been very careful in weighing that fact against the wording of the section. That is to say, they have had no trouble to date, but that is no criterion.

The CHAIRMAN: It is very easy to take a stab at mending one of these things and then find that you have to go deeper into it. It is not a thing I would care to have inserted without considerable study.

Mr. ENFIELD: I agree. If we could have the assurance that this has been carefully studied by the department—

The WITNESS: This has been here since 1950. I have frankly given no thought to it before answering these questions because the question never arose before.

Mr. MACDONNELL (*Greenwood*): I am wondering whether it would be sensible here to raise the question for the draftsman and ask him to take a look at it. I am suggesting that the introduction of (IV) may raise problems which have not existed before. It will not be a great burden to anyone to have this looked at again.

Mr. RICHARD (*Ottawa East*): Perhaps we might adjourn in order to give time to Mr. Burns to think over this subsection, and then we could have it discussed at the next meeting.

Mr. MICHENER: In the words used in the beginning of the section "real property owned by Her Majesty in the right of Canada" there is a question of ownership there and it includes any buildings owned or occupied. I would think that the exemption should be consistent and ought to be exemption of property owned by these corporations or perhaps owned and occupied.

Mr. BENIDICKSON: Would you leave this with us. We do not have the legal representative of the department here. I think if Mr. Samuels and the representatives from the municipal grants section take a look at the suggestions offered here they might amend it, if they think it necessary.

Mr. MACDONNELL (*Greenwood*): Would we leave the section open?

Mr. BENIDICKSON: No. We could amend it in committee in the house.

Mr. MACDONNELL (*Greenwood*): I am not sure whether or not Mr. Benidickson is proposing that we pass this now. My feeling is that it should not be passed at this time.

Mr. BENIDICKSON: That is fine if we are to have another meeting.

The CHAIRMAN: I would rather see this amended in committee of the whole if necessary after some further study. Could you give us an undertaking, Mr. Benidickson, to have this studied so that if it is felt necessary an amendment could be introduced in committee of the whole.

Mr. MICHENER: Suppose we reserve this until our next meeting and in the meantime get back on the bill.

The CHAIRMAN: If we are not going to pass this bill today I suggest that we adjourn until next week. In the meantime perhaps the department can have a study made of this.

We will adjourn until Tuesday, March 5th at 11.30 in the morning.

EVIDENCE

TUESDAY, March 5, 1957.
11.30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

It will be recalled that at the last meeting the question was raised as to the wording of subparagraph (v), at the top of page 2, of the bill. There were several suggestions as to why it should be amended. Since that time, this subparagraph has again been submitted to the Department of Justice, and they have given their view in respect of it.

I have here a statement which I borrowed from Mr. Benidickson. Is it all right if I read it?

Mr. BENIDICKSON: Yes. I have also given the statement to one or two other members of the committee.

The CHAIRMAN: Yes. It says:

Certain committee members contended that the wording of the exception for crown companies or agencies of the Crown in section 2(c)(v) is too wide, that is, it permits properties to be excluded on which grants should, by a reasonable interpretation, be paid under our act. They suggest that the wording might be changed with respect to crown companies so that instead of reading 'real property under the control, management or administration of a corporation, company, etc.' the provision should read 'real property owned by a corporation, company, etc.'. On examining this with the Department of Justice we find that it would be incorrect in most cases to describe the property of crown companies as property 'owned by' such companies, because the property is actually owned by Her Majesty in law and is only administered by the company. A careful reading of the present wording shows that in fact the property to be excluded is restricted to a narrow compass.

For property to be excluded under this section, the corporation, commission or agency must control, manage or administer the property and to do that it must have power to hold real property, which power is only held by a restricted group of crown companies or agencies such as the Canadian Broadcasting Company and Central Mortgage and Housing Corporation. The fact that a crown company occupies or uses certain property would not mean that the property is excluded by this exception. For example, grants are being paid under this act on account of the National Film Board, and Defence Research Board. The requirement as it is written is that the corporation, etc., must be established to perform a function or duty on behalf of the government of Canada. Thus property administered by a government department would not be excluded because the government department is an integral part of the government and is not 'established to perform a function... on behalf of the government'.

As an alternative to the present wording, consideration was given to excluding specifically the property administered by the companies, boards and agencies listed in schedules B, C, and D of the Financial Administration Act. This method cannot be adopted successfully

because some crown agencies not listed in the schedules do administer their own property and make their own grants in lieu of taxes and, consequently, should be excluded under our act. An example is the Industrial Development Bank. On the other hand, not all the corporations and agencies listed in schedule A of the Financial Administration Act (this is the group comprising the boards whose properties are generally considered as federal properties) should qualify for payment under our act. For example, the Board of Grain Commissioners administers its own property and pays its own grants.

The case of the National Railways is an exceptional one as some of the property, although held in the name of the Crown, is an integral part of the railway system and cannot be separated. Also there are numerous exceptional statutory exemptions given to various railways. These exemptions should not be interfered with by an act of this nature.

The memorandum is brought forward by the Department of Finance, after discussion with Justice Department. They feel that as long as we are going to exclude certain crown corporations, boards and agencies which, as is recognized by the principle, should be brought in under the general taxation principles, but which, due to the problem involved, and the requirement of further study, are not being brought in here, and as long as we are making these exclusions, then this wording is satisfactory for that purpose.

Mr. FLEMING: Mr. Chairman, is there any objection from the Department of Justice to inserting in line one on page two the word, "ownership" to make it alternative whether the real property is under either the ownership, control, management or administration of the C.N.R., or any of these other corporations or commissions which are established to perform a particular function?

The CHAIRMAN: I would not think that it would make much difference, but does it add anything to it?

Mr. FLEMING: I wonder if it would not contribute something in respect to meeting the problem that is dealt with in Mr. Benidickson's memorandum.

The CHAIRMAN: I do not think it adds anything at all to it, because if it is under the control, management, or administration, surely that would include property under ownership?

Mr. BENIDICKSON: As was pointed out at the last meeting, this thing has worked very well since 1950.

Mr. FLEMING: Ordinarily the words, "control, management or administration" would not include every case of ownership where you have ownership vested in a particular corporation; but perhaps under some arrangement with another crown corporation, control, management or administration is in still another body.

The CHAIRMAN: If the ownership is in the Crown it is taxable, and is not included in the exemptions. That is, it is not included in the exemptions, unless you bring it under the control, management or administration of the railways, and so on.

Mr. MICHENER: Mr. Chairman, the interpretation, which is given in this memorandum is along the line of my thoughts on this matter; at least it is in accordance with what I think should be the case. It rather narrows the—

Mr. BENIDICKSON: It narrows the exemption instead of making it wider.

Mr. MICHENER: Yes. To that extent it is better than the change we suggested last meeting. That is the way it appears to me. If the department goes on, as it has assured us it will do, with its review all these agencies and corporations of the Crown could be assimilated to the position that is taken

in this act, so that they will pay full municipal taxes, then it seems to me that it would be just as well if we did not attempt to upset it, as it is interpreted here, in a way that is preferable to what we have been suggesting.

The CHAIRMAN: I would not like to advocate a blind subservience to the views of the Department of Justice—they can be wrong the same as anyone else, but I think, in this case, their opinion seems to be reasonable.

Mr. BENIDICKSON: Mr. Burns said they had no trouble with it over a number of years. I think that is something that will appeal to the committee.

Mr. MICHENER: I do not know if it is reasonable, but the practice they follow is a practice that appeals to me, because it narrows the exemptions from the bill rather than broadens them, and that is what I wanted to do. I want them to get all the taxes they can from the property, whether it is owned by the Crown or not.

The CHAIRMAN: That also applies to the boards or agencies.

Mr. MICHENER: I do not quite follow the reasoning of this first sentence in the second paragraph of the statement which was read, Mr. Chairman—"for property to be excluded under this section, the corporation, commission or agency must control, manage or administer the property and to do that it must have power to hold real property,—". I do not know that that follows, but if the act is being interpreted that way, we have no real cause for complaint.

The CHAIRMAN: I must say that that is the only sentence there that I did not accept holus-bolus. I do not think that necessarily followed.

Mr. BENIDICKSON: I would agree.

The CHAIRMAN: Mr. Burns says that he has an explanation in regard to that, if you care to hear it.

Mr. R. M. Burns, Director of Municipal Grants Division, Department of Finance, called.

The WITNESS: As I understand, from the Assistant Deputy Minister of the Department of Justice, many of these companies are specifically, in their act, given the power to hold property, although the property actually is legally in the name of the Crown. They do not actually own it, but they do have the power to hold it and administer it. Some other organizations actually have no property at all. It is held just as federal property, and it is operated and administered by the Department of Public Works.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, there was one other point raised that I would just like to be sure of. The suggestion was made that possibly in line four on page two the "of" should appear after the word "or". In other words, "—under the control, management or administration of the national railways as defined in the Canadian National-Canadian Pacific Act, or 'of' a corporation, company, commission, board or agency—". I rather inferred from what has been said—

The CHAIRMAN: They interpret it that way anyway.

Mr. MACDONNELL (*Greenwood*): I rather inferred from what has been said that it would be better to leave it as it is, but I would just like to make quite sure that that has been considered, and that is the view.

The CHAIRMAN: I take it that that is the view.

Mr. FRASER (*Peterborough*): Mr. Chairman, in regard to the Royal Canadian Air Force renting a piece of property in a building, they would in that way, of course, pay the real estate branch. Then, there would also be another tax imposed on any business that rented that property. That would be eliminated under this clause, would it?

The CHAIRMAN: This does not, as I understand that, deal with business taxes; it deals with real property taxes.

Mr. FRASER (*Peterborough*): That would be eliminated?

The CHAIRMAN: Yes.

By Mr. Michener:

Q. Does Mr. Burns have a list of the corporations, agencies, companies, commissions, or boards which are excluded by the act?—A. These are the companies that are not coming within the workings of this act: the Atomic Energy of Canada; the Bank of Canada; the Board of Grain Commissioners; the Canadian Arsenals Limited; the Canadian Broadcasting Corporation; the Canadian Farm Loan Board; the Canadian National Railway; the Canadian Overseas Telecommunications Corporation; the Central Mortgage and Housing Corporation; the Director of Soldier Settlements; the Eldorado Mining and Refining Company; the Federal District Commission; the Industrial Development Bank; the National Battlefields Commission; the National Harbours Board, and the National Research Council. We do have a special arrangement with the National Research Council in Ottawa whereby we take their properties into the general grant there. The Northern Transportation Company, the Northwest Territories Power Commission, the Polymer Corporation, the St. Lawrence Seaway, Trans-Canada Air Lines, and the Director of Veterans Land Act.

By Mr. Fleming:

Q. May I ask if all those mentioned now pay municipal taxation?—A. They all pay something with the one exception—the National Battlefields Commission, which holds practically nothing but park lands. I would not say they were all paying on the same basis, but they all make some contribution. They do not pay municipal taxes per se.

Q. What is the scope of the variation in respect of the grants that they make in the municipalities?—A. It is fairly complicated, but I would say that it ranged from 100 per cent in the case of the Polymer Corporation, who pay full municipal taxes, down to as low as 15 or 20 per cent, perhaps in respect of the National Harbours Board.

Q. Does each stand on its own merits?—A. Yes. They all act on their own behalf. They take independent action on their own, under an instruction that was issued some years ago by the then Minister of Finance, which said that they should make some arrangements with the municipalities with respect to making some payments.

By Mr. Michener:

Q. Is that directive available so that we could see just what it said?—A. I do not know that it was ever a formal directive. I think it was a rather informal instruction. Perhaps it was included in a budget speech.

Q. Mr. Chairman, perhaps that is the answer to interim problem. Until the position of these various corporations has been considered, perhaps the Department of Finance would reconsider the directive given to these corporations, commissions and agencies, advising them to bring this into this principle as it is under the new bill.

Mr. BENEDICKSON: That is what I told the committee was being done, because of the new principles of this bill in respect of what is called federal property. I suggested that the Minister of the Department of Finance would be obliged to review the position of the crown companies, and I indicated that it was a very complicated thing, which would take some time to work out. I indicated that it might be possible to take all of these entities on exactly the same basis, but that is the natural result of the provision that we are studying here.

Mr. MACDONNELL (*Greenwood*): Could any reason be suggested, which never has been suggested here, that a crown corporation, which is under this control, management, or administration, etc., should be treated differently, and should have special treatment?

Mr. BENIDICKSON: I thought that I gave one example of that at the last meeting with respect of the position of the Canadian National Railway. I indicated that all railways, due to certain provincial legislation, have some statutory exemptions from the normal taxation. I said that it would be very difficult to put something in this act that would affect the Canadian National Railway, when its chief competitor, the Canadian Pacific Railway, is probably exempt in various provinces from provincial taxation.

Mr. MACDONNELL (*Greenwood*): I do not want to press what Mr. Benidickson has said, but could this question be asked: apart from such statutory exemptions, as he has mentioned, could we take it that this is being reviewed in the sense that a crown corporation should behave as the department is behaving in respect to Crown property which is owned, controlled and used for government purposes?

Mr. BENIDICKSON: Yes, that was the point which I made. Because we are doing that on normal federal government property, it is natural that the department would now look again at the practices of the crown corporations. But it is embarrassed by the different roles that these corporations have, and their different contributions to the communities in which they have property.

Mr. MICHENER: Mr. Chairman, I would like to make a further point. As this is the time of year that many municipalities are dealing with taxes, it seems to me that it would be desirable for the Department of Finance—which gave a directive, instructions, or made a suggestion some years ago, as a result of which the corporations have been negotiating taxes in the intervening years—while waiting for a full review, that they put the principle of this bill before the boards of directors of these corporations, or the managers of the agencies, so that when they negotiate this year's tax arrangements with their various municipalities, they will come as near as they can, in respect of the allowances that Mr. Benidickson has referred to, to the position the the Crown is properly taking in respect of this bill. It seems to me that that would solve a lot of the problems arising out of the bill.

Mr. FLEMING: May I ask what is required in order to equate, in general, the tax positions of these crown corporations with the position of the Crown in respect of the bill? Would it simply be a change in the terms of a directive of the Minister of Finance, under which they are now making more or less limited payments, or is any amendment in the legislation pertaining to the various crown corporations required for the purpose?

The CHAIRMAN: Where a crown corporation pays less than the full normal taxes, I do not think it is an arbitrary decision on their part to pay less. It is because they have a reason for paying it; either they are providing some of the services, or they are making some contribution, or something of that sort. They do not just say, we are a crown corporation, and we will pay you something, but we will only pay you 25 per cent. It is based on some line of reasoning.

Mr. FLEMING: That, I am afraid, does not touch my question. I am wondering what is required. I have no doubt about what has just been said, and that it does apply in the case of many of these situations. To arrive at a conclusion, I suppose one would have to look at them all. We have already been told that each one, as I understood, is to stand on its own merits. I am wondering what is required, from the legal point of view, to equalize the position. Is it something in the way of a new directive, an amending directive on the part of the

Department of Finance, or is it something that must be done in respect to the legislation under which these crown corporations are respectively operating?

The CHAIRMAN: I do not think that we can expect Mr. Burns to give a legal opinion as to what the act should be.

Mr. FLEMING: I think we should give him an opportunity to make a comment on it.

Mr. MACDONNELL (*Greenwood*): Just before he answers that, it has been indicated to us, as I understood it, that at one stage there was something in the nature of a directive from the Minister of Finance which, as I understood it, has practically said: go ahead and do the best you can, do the best trading job you can. Certainly, from the recent press dispatch, it looks as though it has been horse trading of the rankest kind. Now, I take it that we want to know now whether there is going to be a yardstick by which the municipalities will not be left too much at the mercy of the crown corporations, which I think has been the situation in the past.

Mr. BENIDICKSON: Mr. Fleming used the word "equate". That, of course, is the difficulty. The companies all have different objects. The railways, for instance, have never been taxed on certain types of assets like tracks and ties, and things of that kind. They might be taxed on an office building within a municipality. Now, take a corporation like the Canadian Broadcasting Corporation. This is the problem: you have to consider whether or not the CBC is going to be taxed on something in the nature of engineering structures like a tower, or apparatus. Then again, some of these crown organizations provide municipal services that a taxpayer normally expects to receive from the community, and it is provided by the Crown. I think the provost services would be an example of that. Some of them have their properties so remotely from the centre of the community that they really do not get much benefit from that municipality. These are things that have to be looked at specifically as a result of the principle in this bill. But, an earnest attempt is going to be made to bring harmony in this matter.

Mr. FLEMING: Mr. Chairman, that is interesting, and I think we understand it. But, it still does not touch the question. If the result of this review is that some change, in all fairness, should be made in the present scheme of payments made to the municipalities by these respective crown corporations, then what is required to bring about the change? Is it merely an amendment in the directive from the Minister of Finance, under which they have hitherto been making their payments, or is some amendment necessary in the legislation, under which these respective crown corporations are making their payments, required for the purposes of that?

Mr. BENIDICKSON: Frankly I do not know the answer to that. Perhaps Mr. Burns does. I think it will require individual consultation with the crown entities involved.

By Mr. Fleming:

Q. Could we hear any comment that Mr. Burns has to make on the subject, according to whatever view he has at the moment?—A. I could not give you any information of any significance, because I think it is a purely legal matter. But, my own view is this: there is no legal obligation upon a corporation, as I understand it, to obey a directive. In other words, they can follow the directive, if they wish, or make payments in the way they like. But, to do what you suggest, which would require the corporations to follow the terms of this amended bill, I think would require an amendment to each individual act setting up the corporations.

Q. Otherwise the increased payment to the municipalities by the crown corporations continues to be, as it is legally now, merely an act of grace?—A.

Yes. As a matter of fact, I think inasmuch as nearly all crown corporation properties are held by the Crown, it would have to be an act of grace under any circumstances, because I do not think any act passed here could overrule section 125 of the British North America Act.

By Mr. Michener:

Q. I wonder if Mr. Burns has the details of the arrangement of the Canadian Broadcasting Corporation in respect of its properties? It is fairly representative, and a widely acting corporation.—A. We have some information on that, but I think that I should make it perfectly clear that it is only information that we have gathered, and has no significance other than that, because we have nothing to do with the Canadian Broadcasting Corporation. It is out of our field.

Q. But if in effect you have information as to what they have done, and what they are paying now on their properties, that would be a good illustration of the present situation.—A. I would like to emphasize the fact that this is the only information that we have, and I cannot guarantee its accuracy, shall I say. In the present year the corporation has undertaken to pay the equivalent of full taxes, and will follow closely the Municipal Grants Act as far as possible.

Q. So that it is coming in line with the principles of this bill?—A. Yes.

By Mr. Winch:

Q. Why should they not be included, the same as any other Crown property? If they are going to follow the principle, and I think it is the intention of the government that they follow it, why is it not made clear in the act itself?—A. I think the whole reason is wrapped up in the reason for having crown companies operating on their own in the first place. They are operating as corporate entities and, as such, I do not think their affairs are intended to be mixed up with the general affairs of the government. That would be my view of what is intended by the setting up of a crown corporation.

Q. Why should they not be included in the same principles of taxation? There is no interference in their operation as crown corporations. I do not think there is any reason for that at all. The only thing they say is that this will require further study.

The CHAIRMAN: Each corporation has certain problems. It may well be that eventually they can start making exceptions to the exceptions, and bring in some of them specifically. Others may have to be always dealt with as special cases. But, it does require study, and it is a complicated subject. They do not want to get into something and find themselves off the track.

Mr. BALCOM: Mr. Chairman, the National Harbours Board currently pays for services. Will they now be brought in under this act and their payments be broadened?

The CHAIRMAN: Not under this act, Mr. Balcom.

Mr. BALCOM: They would still pay for services?

The CHAIRMAN: They would be exempted under this.

By Mr. Michener:

Q. Referring to Mr. Burns' answer in respect of the C.B.C., he expressed it as a 100 per cent payment as from the beginning of this year. What was the previous basis of the C.B.C.'s payments?—A. They apparently made arrangements with the municipalities in which they had property.

Q. And it differed from municipality to municipality?—A. As far as we know. I have no definite information, but that is my understanding. I might say that the C.B.C. is a fairly easy one to bring under the working of this act.

Other properties, like the National Harbours Board, or the Canadian National Railways, will be much more difficult to work into the structure here.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, you used the words a moment ago, to the effect that each case would have to be treated under special circumstances, and I assumed that you meant that there was really no general principle that could very well be applied?

The CHAIRMAN: No, no, I did not say that. I said that I thought, in certain corporations, after further study, it may well be that they could be taxed on exactly the same basis, in which case perhaps they will bring in exemptions to the exemptions. That might be one method. However, I did suggest that there might be some corporations such as the C.N.R., or perhaps the National Harbours Board, that could never be brought in on a general principle, except one of fair contribution for the services it received from the municipalities.

Mr. MACDONNELL (*Greenwood*): That is an attempt at a principle.

The CHAIRMAN: I think that is a basic principle, is it not? If they are getting full services they should pay for full services. If they are not, they should pay for what they are getting.

Mr. MICHENER: Mr. Chairman, in respect to Mr. Winch's question, the real reason that these corporations are exempted is that, with respect to Crown lands, the grant is paid out of the consolidated revenue, but with respect to corporations, they have their own funds, and they will be expected to pay their tax equivalents out of their own funds.

The CHAIRMAN: It will show on their profit and loss statements, of course.

Mr. WINCH: It is still a part of the federal government.

Mr. MICHENER: Yes, but they are different accounts. If you paid the taxes of the broadcasting commission out of the consolidated revenue, it would in effect be giving the broadcasting commission another subsidy.

Mr. WINCH: But if you follow that principle through, then the federal government could establish a crown company and put its operation under that.

Mr. MICHENER: They might do that.

Mr. WINCH: They might incorporate all the departments. I would not put it past them either.

Mr. FRASER (*Peterborough*): There are many public buildings in Canada where the top floor is set aside as living quarters for janitors. Would part of that building be exempted from this, or would it all be exempted?

The CHAIRMAN: I do not know the answer to that.

The WITNESS: You mean quarters occupied by a caretaker? We would pay grants on that.

By Mr. Fraser (Peterborough):

Q. Yes, living quarters.—A. We would pay on that. As a matter of fact, we already pay on that under the housing section, section 8, where we pay on domestic housing. We pay that now, and this amendment will just include it in the general grants.

By Mr. Winch:

Q. Even in the post offices?—A. Yes. We separate that portion used for living quarters out of the main building. Of course under the amended bill, it will not be necessary to do that.

Q. You will pay on the whole building in the future?—A. Yes, that is right.

The CHAIRMAN: But the local municipality would probably differentiate in their assessment. They would assess part of it as commercial property, and part of it as residential property.

Mr. FRASER (*Peterborough*): It depends on which way they could get the most taxes.

The CHAIRMAN: I think you have a point there. I think that it is normal to assess part of it as commercial property and part of it as residential property. If they think they can get more by assessing it all as a commercial property, they may try. That is one reason the crown reserves the right to accept or reject their assessment.

Gentlemen, if there are no more questions we will consider the bill itself.

Clause 1 agreed to.

Clause 2 agreed to.

On clause 3:

3. Section 5 of the said Act is repealed and the following substituted therefor:

"5. (1) A grant may, pursuant to this section, be made to a municipality in respect of any federal property in the municipality, not exceeding the amount obtained by applying

Calculation of grant.

(a) the effective rate of the real estate tax levied in the municipality in the appropriate tax year, to

(b) the accepted value of that federal property.

(2) Where, in any municipality, a separate real estate tax is levied for school purposes varies with the support of different religious denominations, in determining the amount of any grant made to the municipality under this section

Calculation of grant where separate tax for school purposes.

(a) there shall be substituted for the rate referred to in paragraph (a) of subsection (1) the effective rate of the real estate tax levied for purposes other than school purposes, and

(b) there shall be included in the amount of the grant an amount not exceeding a fraction of the accepted value of federal property in the municipality, such fraction to be determined as follows:

(i) the numerator is the total amount of the real estate tax levied in the appropriate tax year for school purposes, and

(ii) the denominator is the assessed value of all real property in the municipality in respect of which a person may be required by the municipal taxing authority to pay a real estate tax levied for school purposes.

(3) The Minister may, in determining the amount of any grant to a municipality under this section, deduct from the amount that might otherwise be payable

Deduction of certain amounts from grant otherwise payable.

(a) an amount that, in the opinion of the Minister, represents

(i) the value of a service that is customarily furnished by the municipality to real property in the municipality and that Her Majesty does not accept in respect of federal property in the municipality, or

(ii) the value of a service customarily furnished by municipalities that is furnished to taxable property in the municipality by Her Majesty; and

(b) such other amount as the Minister considers appropriate having regard to the existence of any special circumstances arising out of any heavy concentration of federal property in the municipality.

Where full amount of grant not taken into account.

(4) Where, in preparing its budget for a tax year, a municipality has not, in the opinion of the Minister, taken into account the full amount of any grant that may be the amount of that grant, make such adjustment in the rate referred to in paragraph (a) of subsection (1), or in the rate referred to in paragraph (a) of subsection (2) or the denominator referred to in paragraph (b) of subsection (2), as the case may be, as, having regard to the amount of the grant or portion thereof not so taken into account, he considers appropriate."

Mr. WINCH: I would like to ask a question in regard to the explanation. "This amendment would permit grants to local taxing authorities which may not be 'municipalities' within the meaning of that term in the province concerned."

The CHAIRMAN: Where is that?

Mr. WINCH: That is on the third clause.

The CHAIRMAN: Where were you reading from?

Mr. WINCH: On page two in respect of clause 3, which explains that grants could be paid to a taxing authority which may not be classed as a municipality. In view of the fact that there are, in some provinces—and I know that there are in our own province of British Columbia—a great many federal operations on land which is taken out of the taxation, and comes within the real estate taxation jurisdiction of the provincial government, will this exclusion have any application in respect of the payment of taxes to the province in respect of its power as a real estate taxation division? If not, why not?

The CHAIRMAN: I would judge, from reading the act, that if they are provincial crown lands that are occupied in unincorporated places, that they would not receive the grants.

Mr. WINCH: This is an exclusion from the definition of a municipality. Now, a great deal of the real estate—if I may use that term—which is federally owned, comes under the real estate taxation powers of the provinces. Under this definition here, or this wording, it seems to me that the province, in the light of that power, is included under the grants.

The CHAIRMAN: I would not think so.

Mr. WINCH: That is the question. If not, why not?

The WITNESS: I think I know what Mr. Winch is talking about here. He is referring to the situation which exists largely in British Columbia and northern Ontario. British Columbia is 98 point something per cent unorganized territory. There are some federal properties in those areas. The kind of tax in that case is a general tax, Mr. Winch, which is not related to any service whatever. It is just a general one per cent, two per cent or three per cent tax on the land in the unorganized territory. It is not related to a tax on property for services supplied to that property. The only service tax would be a school tax to the school district in which the property is located.

By Mr. Winch:

Q. If you happen to have a home up there you are taxed a real estate tax.—A. Yes, but irrespective of what services are supplied you pay that.

Q. You still have to supply roads in the province?—A. That is true.

Mr. BENEDICKSON: You would oblige the federal government to pay taxes to the province whether there are roads or not? In Northern Ontario you would pay a fixed tax if it happens to be in an unorganized territory whether or not there were any roads.

Mr. WINCH: The land is taken out of the taxation, and it is taken out of it by the same principle, which was explained by the minister. There was to

be a tax paid, and there was to be a grant in lieu of taxes if the land was taken out of the taxation; that is, federal land under the provincial taxation field, which is taken out of the taxation. Why should the same principle not apply?

The CHAIRMAN: You mean a reimbursement to the province?

Mr. WINCH: Yes. It is land which is taken out of their general taxation, in unorganized territory.

The CHAIRMAN: It may be a principle, but it is a principle that has not been recognized to date—that the crown pays to the crown, except by agreement.

Mr. WINCH: Then you are not following the recognized principle of making payments, on property owned by the crown, to the municipality. Therefore it is a new principle, and a good principle, but if it applies in the one case, why is it not going to apply in the other?

Mr. BENIDICKSON: We have other tax agreements with the provinces that supply them substantial sums of money.

The CHAIRMAN: I think the major problem between the federal government and the provincial governments comes up in the tax agreements. Even if you take out 100,000 acres of crown land, up in northern British Columbia somewhere, the potential tax loss there is negligible, because they are getting nothing for it anyway. I think the answer is, probably, that the provinces have never pressed for it, because it has little significance. Would that not be the answer?

By Mr. Winch:

Q. As I understand it, the federal government is paying taxes on their research building on the university campus, which is outside of Vancouver. Now, that is not in the municipality. That is something which comes under the jurisdiction of the province of British Columbia.—A. We are not paying taxes on that.

Q. You are not? Why are you not?—A. It is not a municipality.

Mr. WINCH: When the supplementary estimate was brought in by the Minister of Finance, I asked him specifically as to whether this applied. He indicated, and the only answer I could get from him was, that it was being paid on a certain building. I am afraid that the minister thought that building was in the city of Vancouver, but it is not. It is on the university grounds, which are owned, as crown property, by the province of British Columbia. Now, the department of the government of British Columbia has a taxation power the same as the municipalities, but it is not a municipality at all. Now, if it applies to a federally owned building on a university campus, then why does it not apply on the other land taken out of taxation? Why does that same principle not apply?

The CHAIRMAN: Is the University of British Columbia a crown corporation?

Mr. WINCH: No, it is a special department. I think it is under the Department of Lands and Forests.

The WITNESS: It is a corporation set up by its own act and its lands are provincial crown land.

By Mr. Winch:

Q. That is right, and operated under a department of the provincial government.—A. I do not recall the reference that you are making.

Q. It was a statement made by Mr. Harris in respect of the supplementary estimates.

Mr. CAMERON (*Nanaimo*): I was also disturbed by Mr. Harris' statement. I came to the conclusion that he was quite confused himself. He thought this building was in the municipality of Vancouver.

The WITNESS: The only building that we are paying on in Vancouver is the D.V.A. building on Haro Street, which is on land owned by the city of Vancouver.

Mr. CAMERON (*Nanaimo*): He made a specific reference to—

The WITNESS: We may have confused him, in our discussion with him, by referring to this building as one of the buildings that exists in Vancouver on leased land.

By Mr. Winch:

Q. Will the same principle apply in regard to airports, which are on land in unorganized territories? Are there not taxes paid with respect to those?—A. I do not think I can give you an answer. It is really a matter of policy. But, I can say this; no one has ever suggested, either provincially, or federally, that it should be, and I think it is pretty well established that the provincial crown does not tax the federal crown, and vice versa. If that were happening in respect of a provincial crown taxation right, having regard to a certain area, you could extend it much further than that. It would then enter the field of sales tax, and income tax, and so forth.

Q. There are exemptions on that. But, this is different, because of the federal authority in respect to the lack of the power of taxation on the land.

The CHAIRMAN: Mr. Winch, is it not a fact that the whole principle of this bill is just what its name indicates—the Municipal Grants Act? It is aid to the municipalities. It is not drawn up with a view to paying the provinces; that is, the Crown in the right of the Dominion is not paying to the crown in the right of a province. That is not the principle of this bill at all. This is a bill in respect of the Municipal Grants Act. I am not saying there might not be a principle there. Maybe it will be negotiated some day.

Mr. WINCH: The very reason that I am raising this point, Mr. Chairman, is because of the emphasis that was placed on the opening remarks of the Minister of Finance—that this bill had no connection whatsoever with the physical needs of the municipalities. Therefore, what is being done, on the basis of the principle, is that the federal government recognizes the responsibility of paying the taxes on its own property. Now, that is the only attitude, understanding, or interpretation that we can take as a result of the statement of the Minister of Finance, because it is a principle that the federal government should pay those taxes. What I am trying to find out is: if this principle applies in respect of municipalities, and I say that it does, then it should also apply in any other field of taxation in which you have a federal building, or federal property.

The CHAIRMAN: I cannot say if that principle is embodied in this act.

The WITNESS: Mr. Harris did say that this bill was intended to assist municipalities to meet their obligations due to the presence of federal property within their borders.

By Mr. Winch:

Q. I am glad to accept that. I wonder if the hon. gentleman would now explain why there is no change and why they will not take in the cost of the construction of roads and sidewalks.—A. We do so if they are local improvement charges. We accept them. If they are part of the general tax rate we propose to pay the full tax rate.

Q. I was thinking in part of the cost of building allocated over the years; you will pay that on the cost of construction of roads and sidewalks?—A. Yes, we have always paid on local improvements.

Q. And not put any taxation on it?—A. I think you are referring to the exemption in the original act which said that roads and sidewalks are not considered material services.

Q. And it is still there.—A. No, it is not. The criteria of material services have been removed in this amendment. It comes out in this bill. Clause 2 says that section 3 of the said act is repealed. It removes section 3 of the act.

The CHAIRMAN: That deals with the very thing you were talking about.

The WITNESS: We have always paid for local improvements as such where they were specifically charged for roads or sidewalks, etc. and were charged against the property.

Clause 2 agreed to.

On clause 3—Calculation of grant.

3. Section 5 of the said act is repealed and the following substituted therefor:

"5. (1) A grant may, pursuant to this section, be made to a municipality in respect of any federal property in the municipality, not exceeding the amount obtained by applying

Calculation
of grant.

(a) the effective rate of the real estate tax levied in the municipality in the appropriate tax year,
to

(b) the accepted value of that federal property.

(2) Where, in any municipality, a separate real estate tax is levied for school purposes and the rate of the tax levied for such purposes varies with the support of different religious denominations, in determining the amount of any grant made to the municipality under this section

Calculation
of grant
where
separate tax
for school
purposes.

(a) there shall be substituted for the rate referred to in paragraph (a) of subsection (1) the effective rate of the real estate tax levied for purposes other than school purposes, and

(b) there shall be included in the amount of the grant an amount not exceeding a fraction of the accepted value of federal property in the municipality, such fraction to be determined as follows:

(i) the numerator is the total amount of the real estate tax levied in the appropriate tax year for school purposes, and

(ii) the denominator is the assessed value of all real property in the municipality in respect of which a person may be required by the municipal taxing authority to pay a real estate tax levied for school purposes.

(3) The minister may, in determining the amount of any grant to a municipality under this section, deduct from the amount that might otherwise be payable

Deduction
of certain
amounts
from grant
otherwise
payable.

(a) an amount that, in the opinion of the minister, represents

(i) the value of a service that is customarily furnished by the municipality to real property in the municipality and that Her Majesty does not accept in respect of federal property in the municipality, or

(ii) the value of a service customarily furnished by municipalities that is furnished to taxable property in the municipality by Her Majesty; and

(b) such other amount as the minister considers appropriate having regard to the existence of any special circumstances arising out of any heavy concentration of federal property in the municipality.

Where full amount of grant not taken into account.

(4) Where, in preparing its budget for a tax year, a municipality has not, in the opinion of the Minister, taken into account the full amount of any grant that may be made under this section, the Minister may, in determining the amount of that grant, make such adjustment in the rate referred to in paragraph (a) of subsection (1), or in the rate referred to in paragraph (a) of subsection (2) or the denominator referred to in paragraph (b) of subsection (2), as the case may be, as, having regard to the amount of the grant or portion thereof not so taken into account, he considers appropriate."

By Mr. Fraser (Peterborough):

Q. Referring to sub-clause (2) of clause 3, it says "where, in any municipality, a separate real estate tax is levied for school purposes . . ." how is this applied? How is it dealt with? How do you designate where it goes and how it goes? I know it is given to the municipality, but in the municipality there might be a question asked as to which party should have this school fund, or what denomination should have the school fund.

The CHAIRMAN: Is that not a local problem?

By Mr. Fraser (Peterborough):

Q. Not necessarily, because I would judge that it would be dealt with the same as it is now, that the person who was taxed designates the tax and says where it should go, or which school board should receive it.—A. We pay the tax to the taxing authorities. We do not attempt to distribute it by its component parts. It is up to the municipality to do that.

Q. And they have to go into a huddle to see how it should go.—A. Yes. It is their problem to decide how it should go. It is generally shown in most tax bills at a definite rate but we felt that we should pay the tax to the taxing authority and that was that. If a school board is the taxing authority under this act then we have the power to pay to it direct but this is rare.

Q. You pay school taxes under this act?—A. Yes, but they are calculated by the municipality in nearly all cases. So we pay the whole tax over to the municipality and what they do with it is between them and the province.

Q. It is up to the municipality. You do not do as the ordinary taxpayer does, that is, mark down on it which school you want to go to?—A. The normal taxpayer pays one cheque into the municipality and not to the school board.

By Mr. Winch:

Q. In British Columbia they are organized as school districts.—A. The school district in an unorganized territory, provided it is a taxing authority, would qualify.

Q. In British Columbia the school district is a taxing authority.—A. If it is a taxing authority it would qualify under this act, because we have described a municipality in this bill for the first time as an amending bill, and it is given a special definition which is much more extensive than the ordinary definition of a municipality.

Mr. MACDONNELL (*Greenwood*): I have a question relating to clause 3, line 4, on page 3.

By Mr. Michener:

Q. On the same point I understood the witness to say that there is nothing in the act to appropriate the payment which is made to the municipality for any specific purpose. It is simply a payment of a sum of money to a municipality. Is it the practice in making that payment to show how the sum is made up, that is, as between rural property tax, school tax, separate school tax, or whatever it may be?—A. No. We pay the overall amount to the municipality, and we do not know where and how it is broken down.

Q. All the municipality gets is the tax?—A. That is right.

Q. There is no power in the act to designate or appropriate the money?—A. There is no power in the act. We are very loath to get mixed up in it. The province of Ontario has been approached by municipalities to do this and they also are very loath to get mixed up in it.

By Mr. Pallét:

Q. The province of Ontario does not pay school taxes as such?—A. They have been approached to put something in the municipal act whereby the school board must pay over to—or share any grants, but there is no legislation requiring them to do it.

Q. There is no provision that part of the payment should be used to reduce school taxes?—A. The overall effect is the same, but the intent may be different.

By Mr. Crestohl:

Q. Do you receive an account from the municipality to show how their payment is made out?—A. From some municipalities, yes; but normally they make application to us on our form.

By Mr. Fraser (Peterborough):

Q. Has the form got any mention of school taxes on it?—A. Yes.

Q. It states how big is the public school and the separate school, and you pay them? That is the way you do it?—A. Yes, that is the way we do it in the case of the province of Ontario which is the main one concerned in this.

By Mr. Macdonnell (Greenwood):

Q. I have two small questions on page 3, line 4, "the accepted value of that federal property"; and then going further down to line 33 "on the administration of cases where Her Majesty does not accept the services in respect of federal property." Accepted value in my first question.

The CHAIRMAN: What page is that?

By Mr. Macdonnell (Greenwood):

Page 3, line 4. I think we were told that it was the municipality's assessment that established the accepted value, but I would like you to cover it again.—A. Accepted value is defined in the main act as follows:

"accepted value means the value that, in the opinion of the Minister, would be attributed to federal property by a municipal taxing authority as the base for computing the amount of real estate tax applicable to that property if it were taxable property:

By Mr. Winch:

Q. Does that mean that if there is any disagreement between the taxing authority and the federal government as to the value, and as to who is going

to set it, you are going to follow the procedure of ordinary parties of having an appeal made, of making an appeal to an independent board?—A. No.

Q. It means that it will be established by the minister?—A. In the last analysis by the minister.

Q. Just why? On the basis of principle in this act when there is any dispute between the assessors and the valuation of the federal government, then the federal government will decide who is right; whereas any other taxpayer, whether he be a home owner or a business man, when he gets his tax bill, and if he does not like it, then he has the right to appeal against it and to go before an independent board of commissioners.

The CHAIRMAN: I think you know the answer to that yourself, Mr. Winch.

Mr. WINCH: I have made an appeal myself and I know how it operates.

The CHAIRMAN: First of all, the government has no vote in that municipality. To start with, that is a consideration; they always consider the voters. And secondly, if a municipality decides to be unfair and to assess a \$½ million building for \$2 million, and if the government appeals it, you know where it would go. It would go before a court of revision, and who is the court of revision but the municipality! It means that the government would have to carry such a case as far as the court of appeal before it could get an answer.

Mr. WINCH: I am not prepared to admit that because I think it is an attack on the independence of the board to whom you carry your appeal, and I think they are honest people.

The CHAIRMAN: I think so too, but there is a little larceny in everyone.

Mr. WINCH: I do not think you mean it quite that way.

The CHAIRMAN: It is a possibility.

The WITNESS: It is the established practice everywhere that these payments are made in that way. That is the practice in the United Kingdom and in Ontario.

Mr. WINCH: Well, the next time I am taxed I would like to say that I can state what the valuation is, and not the assessor.

The CHAIRMAN: No, you have the wrong principle. We are saying that. If taxes go up, as long as we are assessed fairly, as long as we are assessed as fairly as other property in the municipality, then we accept it.

The WITNESS: This is an ex gratia payment, while your payment is not, Mr. Winch. But I want to say there is a practical reason for it. A great many municipalities are not in a position to assess properties that we have which are so completely different from normal properties. Many of these small municipalities have not got the technical information or the ability to assess them. The local assessors would be handicapped in assessing them in the normal course. So we have found for all practical purposes that this method is cheaper and more efficient for everybody concerned.

I do not think that the municipality loses out. For example, in Ottawa we have only two or three properties out of 800 or 900 in which there have been disputes, and that is a pretty small amount. I think that in over 95 per cent of our property assessments there is no problem with the municipalities as to what the proper valuation is. We have even had Toronto asking us to send somebody down to help them value the property.

Mr. QUELCH: What is the situation regarding federal property and the housing of federal employees within national parks and within areas which are taxed for school purposes under provincial legislation such as at Banff?

The CHAIRMAN: I would judge they would pay up.

The WITNESS: If it is within organized territory, we would pay.

By Mr. Macdonnell (Greenwood):

Q. Where Her Majesty does not accept the services customarily furnished, on line 33; may we have an illustration of what is meant by that?—A. That would be services not accepted.

Q. That is right.—A. The city of Ottawa which is the best example I can give you, that is where most frequent adjustments are made. For example, special police protection is provided by the R.C.M.P. instead of by the city police, and by the provost corps, and there are other items such as garbage collection where we provide our own garbage collection rather than to use the city-provided services, and sewage disposal for certain of our properties such as the Rockcliffe airport.

Q. Is that because of the dangerous people who infest Ottawa from time to time?—A. At one time we discussed this with the city police to see if they would take over some of these services, but they preferred to leave matters as they are.

Clause 3 to 9 inclusive agreed to.

Title agreed to.

Mr. MICHENER: I would like to revert to clause 9. We are making the act come into force as of January 1. That, I take it, is a convenient date for the municipalities this year?

The CHAIRMAN: They usually tax for the calendar year.

Mr. MICHENER: There is nothing retroactive about it? It just makes it applicable to the whole of the calendar year 1957?

The CHAIRMAN: To the whole of the municipal taxation year, I would judge.

By Mr. Fraser (Peterborough):

Q. Mr. Chairman, if bills were sent by the municipalities now, when would they be paid?—A. It would vary a great deal, depending on the assessments of the municipalities. For instance, in Ottawa, it takes some months to calculate it. Some could be paid in a very short time. Normally they are paid fairly quickly.

Q. Within two or three months?—A. Yes, but normally we do not anticipate paying any before the middle of the year.

Q. That is what I am trying to get at. You would pay them when the municipal taxes are due, or within that period?—A. Wherever it is possible to do so, but it is not always possible.

By Mr. Michener:

Q. Probably what I was thinking about, as we skipped over this clause, was that the assessments in some municipalities are made in one year, and the taxes are struck on that assessment in the next year. I take it that this amendment will apply to the municipal taxes for the year 1957?—A. That is correct. Some assessments were actually made last October or November, for instance.

Mr. MACDONNELL (*Greenwood*): I just want to clarify one thing which was said in answer to a question put by Mr. Winch. It was said that these were not really tax payments, they were just ex gratia. I think I appreciate the legal position, but I would just like to be assured that what the department is trying to do, and I think we have been told, is to pay the same amount in taxes as they would pay if they were not ex gratia.

The WITNESS: I was just trying to illustrate the legal position to Mr. Winch.

Mr. MACDONNELL (*Greenwood*): All right.

The CHAIRMAN: Shall I report the bill?

Agreed.

*Doc Canada Banking and Commerce
Standing Committee on*

HOUSE OF COMMONS
First Session—Twenty-third Parliament
1957

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN C. PALLETT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Bill 29 (Letter K of the Senate)

An Act to incorporate Investors Trust Company

TUESDAY, NOVEMBER 26, 1957

Including First and Second Reports to the House

WITNESSES:

Representing Investors Trust Company: Mr. Hugh Windsor Cooper, Parliamentary Agent and General Counsel; and Mr. Theodore O. Peterson, Financier, both of the City of Winnipeg.

From the Insurance Department: Mr. K. R. MacGregor, Superintendent.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John C. Pallett, Esq.,

Vice-Chairman: J. Chester MacRae, Esq.
and Messrs.

Ashbourne,
Bell (*Carleton*),
Benidickson,
Blackmore,
Broome,
Brown (*Essex West*),
Cameron,
Cannon,
Cathers,
Chown,
Coates,
Christian,
Crestohl,
Deslières,
Dumas,
Ellis,
Fraser,
Gardiner,

Henderson,
Irwin,
Johnson (*Kindersley*),
Jones,
Lambert,
Low,
Macdonald (*Vancouver-Kingsway*),
MacEachen,
Macnaughton,
Marler,
Martin (*Essex East*),
Morris,
Morton,
Pearson,
Power,
Quelch,
Rea,

Richardson,
Robichaud,
Rynard,
St. Laurent
(*Témiscouata*),
Sinclair,
Stewart (*Winnipeg North*),
Stinson,
Thompson
(*Northumberland*),
Thrasher,
Tucker,
Villeneuve (*Glengarry-Prescott*),
White,
Winkler—50.

(Quorum 10)

E. W. Innes,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, November 18, 1957.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:

Messrs.

Ashbourne,	Irwin,	Richardson,
Bell (<i>Carleton</i>),	Johnson (<i>Kindersley</i>),	Robichaud,
Benidickson,	Jones,	Rynard,
Blackmore,	Lambert,	St. Laurent
Broome,	Low,	(<i>Témiscouata</i>),
Brown (<i>Essex West</i>),	Macdonald (<i>Vancouver-</i>	Sinclair,
Cameron,	<i>Kingsway</i>),	Stewart (<i>Winnipeg</i>
Cannon,	MacEachen,	<i>North</i>),
Cathers,	Macnaughton,	Stinson,
Chown,	MacRae,	Thompson
Coates,	Marler,	(<i>Northumberland</i>),
Christian,	Martin (<i>Essex East</i>),	Thrasher,
Crestohl,	Morris,	Tucker,
Deslières,	Morton,	Villeneuve (<i>Glengarry-</i>
Dumas,	Pallett,	<i>Prescott</i>),
Ellis,	Pearson,	White,
Fraser,	Power,	Winkler—50.
Gardiner,	Quelch,	
Henderson,	Rea,	

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, November 8, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 29 (Letter K of the Senate), intituled: "An Act to incorporate Investors Trust Company".

TUESDAY, November 26, 1957.

Ordered,—That the said Committee be granted authority to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members, and that Standing Order 65(1)(d) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, November 26, 1957.

The Standing Committee on Banking and Commerce has the honour to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be authorized to sit while the House is sitting.
2. That its quorum be reduced from 15 to 10 Members and that Standing Order 65(1) (d) be suspended in relation thereto.
3. That the Committee be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

JOHN C. PALLET,
Chairman.

The Standing Committee on Banking and Commerce has the honour to present the following as its

SECOND REPORT

Your Committee has considered Bill No. 29 (Letter K of the Senate), intituled: "An Act to incorporate Investors Trust Company", and has agreed to report it without amendment.

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted.

JOHN C. PALLETT,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, November 26, 1957.

(1)

The Standing Committee on Banking and Commerce met at 11.00 a.m. this day. The Chairman, Mr. John C. Pallett, presided.

Members present: Messrs. Ashbourne, Bell (*Carleton*), Blackmore, Brown (*Essex West*), Cathers, Chown, Coates, Christian, Deslières, Henderson, Irwin, Lambert, MacEachen, MacRae, Morton, Pallett, Rea, Richardson, Rynard, Stinson, Thompson (*Northumberland*), Thrasher, Villeneuve (*Glengarry-Prescott*), Winkler.

In attendance: From Investors Trust Company: Mr. Hugh Windsor Cooper, Parliamentary Agent and General Counsel; and Mr. Theodore Oscar Peterson, Financier, both of the City of Winnipeg. *From the Insurance Department:* Mr. K. R. MacGregor, Superintendent.

The Chairman expressed his appreciation for the honour conferred upon him on his selection as Chairman of the Committee. He then referred briefly to the Orders of Reference and the Bill presently before the Committee.

On motion of Mr. Chown, seconded by Mr. Bell (*Carleton*),

Resolved.—That Mr. Chester MacRae be Vice-Chairman of this Committee.

On motion of Mr. Morton, seconded by Mr. Coates,

Resolved.—That permission be sought to print, from day to day, such papers and evidence as may be ordered by the Committee.

On motion of Mr. Winkler, seconded by Mr. Rea,

Resolved.—That the Committee request permission to sit while the House is sitting.

On motion of Mr. Henderson, seconded by Mr. MacRae,

Resolved.—That a recommendation be made to the House to reduce the quorum from 15 to 10 members.

On motion of Mr. Brown (*Essex West*), seconded by Mr. Richardson,

Resolved.—That the Committee print 650 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 29, An Act to incorporate Investors Trust Company.

The Committee proceeded to the consideration of Bill No. 29, An Act to incorporate Investors Trust Company.

The preamble was called.

The sponsor of the Bill, Mr. Chown, spoke briefly and introduced the representatives of the Company.

Mr. Cooper made a detailed statement of the purposes of the Bill, outlining the past, present and future functions of the Company. Assisted by Mr. Peterson he answered relevant questions.

Mr. MacGregor was called. He supplied additional information to the Committee and was questioned thereon.

The Preamble was adopted.

Clauses 1 to 6 inclusive and the Title of the Bill were adopted.

The Bill was adopted without amendment and the Chairman was ordered to so report to the House.

At 11.45 a.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

TUESDAY, November 26, 1957.
11:00 a.m.

The CHAIRMAN: Gentlemen, the Clerk advises me that we have a quorum. At the outset, I would like to express my sincere appreciation for being elected Chairman of this Banking and Commerce committee. I think it is rather an historical occasion on this particular day after a period of some 22 years, that a Progressive Conservative should chair the committee, and I express appreciation to the members for that very high honour. It will be a unique committee in that no one party will control it and I am sure that in the spirit of co-operation shown in the past years in meetings of this committee, that the work will be done expeditiously and to the satisfaction of everyone including those who appear before it.

There are some routine matters which have to be dealt with and with your consent, I would like to deal with them before we deal with the Bill that the house has referred to us.

First of all, we should put on the record that we have under the certificate of the clerk of the house "*Ordered* that the standing committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the house and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records."

We have also been advised by the house as to the membership of the committee. Pursuant to an order signed by the Clerk of the House, it is ordered that the following bill be referred to the said committee: Bill No. 29, (Letter K of the Senate) entitled, "An Act to incorporate Investors Trust Company."

Before dealing with the actual Bill, we can do the preliminaries. The first, is to elect a Vice-Chairman of the committee and I would be prepared to hear any nominations put forth.

Mr. CHOWN: Mr. Chairman, may I first, on behalf of all members of the Banking and Commerce Committee to save repetition, congratulate you upon your appointment to the Chair of this committee and wish you every success, in all the deliberations that come before us in the future. It is with great pleasure that I place in nomination for vice-chairman the name of Mr. MacRae of the constituency of York-Sunbury.

Mr. BELL (Carleton): I second that.

The CHAIRMAN: Any other nominations?

Nominations closed.

I declare Mr. Chester MacRae of the maritime provinces elected as Vice-Chairman of the committee and I offer to him my sincere congratulations.

The next matter has to do gentlemen, with the power of printing proceedings. It is my understanding that all proceedings of this committee are not necessarily printed but we would like to have the power to print them if we see fit. Is someone prepared to make a motion in that regard?

Mr. MORTON: I move that, Mr. Chairman.

The CHAIRMAN: That permission be sought to print from day to day, such papers and evidence as may be ordered by the committee.

Mr. COATES: I second that.

Mr. BROWN (*Essex West*): In French as in English.

The CHAIRMAN: I think it is a point well taken, Mr. Brown. I wonder, Mr. Brown, if we leave dealing with the printing in French and English respecting bills until they are before the committee, so that where interest is shown in one language or another we may then determine the amounts to be printed. Are you prepared to let that wait?

Mr. BROWN (*Essex West*): Yes, very well.

The CHAIRMAN: Now the next matter of procedure is to obtain permission to sit while the house is sitting. From the agenda proposed, we do not know whether that will be required or not or how much work we will have but it has been done in the past and it is a procedure that we might follow. Is someone prepared to—

Mr. WINKLER: Yes, I will move it.

Mr. REA: I second that.

The CHAIRMAN: That the committee request permission, to sit while the house is sitting.

Is that unanimous?

Some hon. members agreed.

Agreed.

Now, Mr. Brown, would you like to move with respect to the proceedings, to have copies printed in English and in French?

Mr. BROWN (*Essex West*): Yes, perhaps 650 in English and 250 in French, if necessary. It is fine with me.

The CHAIRMAN: Mr. Brown moves that the committee print 650 copies in English and 250 copies in French of the minutes of proceedings and evidence adduced with respect to Bill No. 29, An Act to incorporate Investors Trust Company.

Mr. RICHARDSON: I will second that. As a matter of economy, I wonder if we really need 650 copies. After you print them it does not make much difference. I am in favour of economy; if you need 650 all right, I will second it; if you do not, cut it down.

Mr. BROWN (*Essex West*): I think 650 is a little high.

Mr. RICHARDSON: However, I will second that.

The CHAIRMAN: The clerk advises me that anything under 600 is too few. Gentlemen, if we can proceed to the bill; Bill No. 29, (letter K of the Senate), an Act to incorporate Investors Trust Company.

Mr. BELL (*Carleton*): Before the committee commences to consider the bill, will you give me the opportunity to make a brief personal statement. According to the statement made in the house by Mr. Chown, the sponsor of the bill, this company is being incorporated as a subsidiary of Investors Syndicate Canada Limited. That company has another subsidiary, Investors Mutual of Canada Limited. In balmier days when I was engaged in the practice of law, for retirement purposes I purchased some special shares of Investors Mutual of Canada Limited with some degree of satisfaction and I am presently the owner of a small number of such special shares of Investors Mutual of Canada Limited. In view of that, I believe I should disclose such interest immediately to the committee and to say to it that it is not my intention to take any part in its proceedings or in the discussion in the house on this bill.

The CHAIRMAN: Thank you, Mr. Bell.

Mr. BROWN (*Essex West*): Mr. Chairman, I did not realize that the bill, Investors Syndicate, was coming along. I, too, have some shares in Investors Syndicate, not in the trust company.

The CHAIRMAN: I think that you both followed a high course of action in this regard.

Mr. BROWN (*Essex West*): I might tell you that I pay \$10.50 a month.

Mr. HENDERSON: Can we have a reduced quorum? Was that suggested? I did not hear any motion on it.

The CHAIRMAN: Are you prepared to move that, Mr. Henderson?

Mr. HENDERSON: If the clerk will give us some information.

The CHAIRMAN: The quorum is 15 and in the past it has been reduced to 10.

Mr. HENDERSON: I move that it be reduced to 10.

Mr. MACRAE: I second that.

The CHAIRMAN: Everyone in favour?

Motion agreed to.

Now we get to "An act to incorporate Investors Trust Company". We come to the preamble first. I will ask Mr. Chown to introduce Mr. Cooper, the parliamentary agent.

Mr. CHOWN: I endeavoured to explain this bill to the house in full, and in detail on November 8, 1957 as it appears in Hansard. Therefore I will not go any further today than to call on Mr. Cooper who has just moved in beside the Clerk. Mr. Cooper is the general counsel of the Investors Trust Company; and taking a place now to the chairman's left is Mr. Ted Peterson who is the president and general manager of Investors Syndicate of Canada Limited, and probably some of its subsidiaries of which I am not aware. If there are any questions you would like to ask, I am sure that both of them would be pleased to answer them.

The CHAIRMAN: Mr. Cooper, would you like to make a brief statement to the committee?

Hugh Windsor Cooper, General Counsel of Investors Syndicate of Canada Limited, called:

The WITNESS: Yes, Mr. Chairman.

Gentlemen the purpose of the incorporation as I understand from having read Mr. Chown's speech, has been explained to you. Essentially, it consists of two purposes. The first purpose is to enable our company to operate in the field of individual registered retirement savings plan on an "equities" basis.

This privilege was given to us by Section 79(b) of the Income Tax Act in so far as the fixed dollar plan, that is our certificate operation. I cannot recall for the moment the pertinent section, but we are entitled to do that business on a certificate basis. However, as far as the equity portion of the registered retirement savings plan is concerned, the privilege is unto trust companies alone; and since we have been doing this type of business in the past, that is providing for retirement income with fixed dollars and the equity dollars, we feel that it would be advantageous to us to be able to continue this business and to allow our clients to obtain a tax advantage or at least, a tax deferment under Section 79(b). This is the first purpose.

The second purpose of the incorporation is to fully administer group retirement plans, that is the group pension plans with which you are all familiar, in so far as employer and employee contributory plans are concerned. We contemplate operating these on a money purchase plan. That is to say,

the employer will contribute say 5 per cent and the employee, 5 per cent and this money will be invested as the plan dictates, perhaps, 50 per cent in equity, 50 per cent in fixed dollars, and at retirement the individual will have purchased for him an annuity from the dominion government or from a recognized underwriter of annuities. These are the two principal purposes, and perhaps if you have any questions as to details, I might answer them. If I cannot, I am sure my president can.

The CHAIRMAN: Any questions that any member of the committee would like to ask Mr. Cooper?

By Mr. Henderson:

Q. Probably you can advise the committee the return the Investors Syndicate has been making to the investors over the last two years?—A. Are you speaking now of the certificate operations?

Q. Yes, your parent company.—A. I would say that it averages between 4 and 4½%.

Q. That is on investment return. Now what about appreciation of capital return?—A. There is no appreciation on capital on the certificate operations since this is a fixed dollar type of guaranteed investment, which is the same as purchasing a government bond on a payroll deduction basis.

Now, in so far as our mutual operation, that is Investors Mutual of Canada Limited, which is a balanced type of fund, consisting principally of common stocks and balanced off with preferreds and bonds, I believe last year its return was somewhere in the neighbourhood of 19 per cent; 125.6 per cent from its inception in 1950.

By Mr. Thrasher:

Q. When was the inception?—A. Investors Mutual was formed in 1948. It began operations really in 1951.

By Mr. Henderson:

Q. What are the capital assets of your parent company, Investors Syndicate?—A. Roughly \$118 million and Mutual is roughly \$150 million.

Q. Just one other question which I would like to ask, Mr. Cooper. You mentioned the fixed income fund and the equity fund. Did you have anything in your mind of any other fund of some of the other trust companies which at their discretion they could invest.—A. I am not quite sure what you mean.

Q. You mentioned the fixed income fund and the equity fund and I understand at the discretion of a trustee that your company, or like companies, would be able to invest in any other funds; and I wonder if you have any other ideas. Could you tell us what your ideas are?—A. Our idea of course, is to propose to the clients, a balanced type of investment program. Now, this will consist, we hope, of perhaps purchases in our new fund, Investors Growth Fund of Canada Limited. This is a common stock fund, pure and simple. It is not a balanced fund. That is, it has no bonds and no preferreds. We hope this will be used as the equity portion and we hope that our certificates will be used as the fixed portion.

Now, that is so far as the registered retirement savings plans are concerned for individuals who are self-employed. Now, in so far as the group pension plans are concerned, we intend to set up two unit trust funds under the aegis of the trust company.

Q. I understand, Mr. Cooper, that your equity fund is going to be limited to investments in companies controlled by Investors Syndicate?—A. No. In our funds, for group pension plans, we will have two investment vehicles, one for the fixed dollars and one for the equity dollars. Now these will be unit

trust funds under the aegis of the trust company. They will be vehicles for group pension plans only. The employer and the employees will agree by way of a scheme, a pension scheme, to invest "X" number of dollars in equities and "X" number in fixed dollars so that the funds will be controlled by the trust company and it will buy investments for the trust funds. But the units in the trust fund will be owned by the group pension plans, who are members.

Q. Mr. Cooper, I take it from your explanation, that you are only asking for the two funds, the fixed income fund and the equity fund, and there are no other discretionary funds outside of that.—A. Oh, no.

Q. Nor are you asking for them?—A. No, we would have no purpose for any other type of funds in our operation.

Q. This bill would include that letter in your form of agreement with your investors?—A. No, we have no intention of operating any other type of fund within the trust company.

Q. Other than the fixed income and the equity fund?—A. Yes.

By Mr. Stinson:

Q. I wonder if Mr. Cooper would give us any information as to the ownership by Canadians of common stock in Investors Syndicate of Canada Limited?

—A. I believe that the latest figures are something like 81 per cent.

By Mr. Cathers:

Q. You mentioned the incorporation of certain of these funds—and I did not get exactly what they were, but you mentioned the years 1950 and 1948; but Investors Syndicate were doing business in Canada long before that, were they not?—A. Perhaps I should give you a brief resume. Investors Syndicate of Canada Limited is a provincial company under special act of the Province of Manitoba. It was formed in 1940. Incidentally, Investors Syndicate was of course, a fixed dollar guaranteed investment program only and it was deemed advisable to get into a mutual type of fund with equities. So in 1948 Investors Mutual of Canada Limited was formed. It did not get off the ground so to speak until 1950 and our first year of operation was 1951. In 1957, just one month ago, we formed another fund, Investors Growth Fund of Canada Limited under dominion letters patent, as was Investors Mutual. This Growth fund is purely a common stock fund as opposed to Mutual, being common stock and bonds.

By Mr. Richardson:

Q. Does the Investors Syndicate of Canada Limited own all the stock of the Growth Fund Company and all the stock of Mutual Fund Company?

—A. No. These, in truth, are mutual companies, and they are owned by the shareholders. Investors Syndicate does however, have a fairly substantial stock position itself, although relatively small in so far as the total amount is concerned. We are the investment managers for both funds and we are also the distributors for both funds.

Q. In respect of this trust company, it is desirable that Investors Syndicate of Canada own all the stock?—A. That is correct.

Q. Is it contemplated, may I ask, Mr. Cooper, that the trust company may buy shares of either the Growth Fund or the Mutual Fund or Investors Syndicate of Canada Limited?—A. The investment policy in regard to that matter has not been determined as yet. It is not particularly contemplated.

Q. Perhaps a little later Mr. Peterson may answer on that.

The CHAIRMAN: Mr. Peterson.

Mr. PETERSON: Mr. Chairman, so far as having the trust company purchase shares of the parent company Investors Syndicate of Canada, or the funds—I can assure this committee that will not take place. Also I think the committee should understand that the two mutual funds are controlled and owned by the public. Investors Syndicate participation was simply to start up the company, and out of \$120 million of Investors Mutual, Investors Syndicate of Canada have about \$100,000; and these assets are a small percentage of the outstanding stock.

Mr. HENDERSON: Does Investors Syndicate own a majority interest in any other company or companies, other than the ones mentioned here this morning?

Mr. PETERSON: I would say no; Investors Syndicate does not. Investors Mutual today is the largest shareholder of a number of Canadian companies. But, as I said before, it is a publicly-owned company. In no circumstances, however, does Investors Mutual own more than 10 per cent of the outstanding stock of any company.

Mr. RICHARDSON: May I ask Mr. Peterson if Investors Syndicate, the original company, 1894, of Minneapolis, still own some shares of Investors Syndicate of Canada Limited?

Mr. PETERSON: No; Investors Syndicate have no further interest whatsoever in Investors Syndicate of Canada. It is a company now owned by individual share holders of which there are between 3,500 and 4,000; and, as Mr. Cooper said, about 80 per cent today is owned by Canadians.

The CHAIRMAN: Perhaps the committee would like to hear from Mr. MacGregor, the Superintendent of Insurance, on this matter. He has been very helpful in the past, and I am sure that perhaps he knows more about this than anyone else in this room.

Mr. K. R. MACGREGOR (*Superintendent of Insurance*): Mr. Chairman and honourable members, in view of the explanations that have been given by Mr. Peterson and Mr. Cooper, I doubt whether it is necessary for me to make many comments in addition.

Briefly, according to the explanations that have been given to me, the proposed trust company will confine its operations in the foreseeable future, at least, to the pension field, both group and individual.

The bill follows the form of a model bill in the Trust Companies Act, except for clauses 5 and 6, to which I might refer briefly later.

The proposed company would be granted the usual power of a trust company, without exceptions, and without supplements.

My understanding is that the company will not in the foreseeable future exercise itself in many of the fields that other trust companies do exercise themselves in.

Normally it might accept deposits from the public; and it will not be administering estates. It will not be issuing guaranteed investment certificates of the type commonly issued by other trust companies.

A word of explanation, I think, is required, or at least is desirable, in reference to clauses 5 and 6. Under the Trust Companies Act, which was originally passed in 1914, a company must have a minimum subscribed capital of \$250,000, and a minimum paid capital of \$100,000, before it may commence business.

Those amounts were set out in the Trust Companies Act away back in 1914, and have not since been changed. A simple explanation is that there have been so very few trust companies incorporated by parliament in the last twenty-five years that there has really been no need to give the point attention.

However, those amounts are, under present-day conditions, obsolete; and I think at the first opportunity the general act should be amended to increase them.

The purpose of clause 5 is to set aside that small minimum in the general act, and to require instead that before this company may commence business it must have subscribed capital of at least \$1 million and at least \$1 million paid thereon.

The proposed trust company, if incorporated, would be subject to the provisions of our department, the Department of Insurance. It would be subject to all the provisions and requirements of the Trust Companies Act, as respect its investments and in every other respect.

I might mention incidentally, in passing, that our department has not heretofore had any official connection with the Investors Syndicate of Canada Limited, the parent behind this proposed company; nor will our department have any official connection in the future with the parent company, the Investors Syndicate of Canada Limited.

Our duty and responsibility will be limited to the operations of this trust company. I do not think there are really any additional comments I can usefully make on the bill. It follows the prescribed form, and it is seeking no special powers. The capital will be ample, and there are really no justifiable grounds upon which our department can object to its incorporation.

Mr. RICHARDSON: May I ask how many trust companies have been incorporated in the last twenty-five years?

Mr. MACGREGOR: Speaking from memory, only three. There were two in 1945, the Ottawa Valley Trust Company and the Trust Company of America, both of which companies incidentally are not presently in business. Last year there was a third incorporation, the Interprovincial Trust Company which has not yet begun business.

Mr. RICHARDSON: Thank you very much; may I ask Mr. MacGregor if he has any objection to the name, at all?

Mr. MACGREGOR: Thank you, Mr. Richardson; I should have touched upon that point.

Mr. RICHARDSON: May I say that this is not the only miracle, having a meeting after twenty-two years; it is a miracle that he forgot that.

The CHAIRMAN: I agree with that, Mr. Richardson, 100 per cent.

Mr. MACGREGOR: I have been assured that the proposed name has been cleared with provincial authorities in every province, and I know it has been cleared with our own Secretary of State's branch, so far as the dominion is concerned. I know of no objection from any quarter, either a private source, or the provincial authorities.

Mr. HENDERSON: This does not apply only to this company, but to all trust companies. I imagine there will be a great many more agreements now between the individual and the trust company to take advantage of section 79B of the Income Tax Act.

I would like to ask you this question: have you any control, or do you peruse the application agreement under the retirement savings plan between the applicant and the trust company?

Mr. MACGREGOR: No, Mr. Henderson; we have no such duties. We have some duties under the Income Tax Act as respects pension schemes.

Since about 1940 we have been required to advise the Minister of National Revenue concerning the appropriateness of any proposed payment for so-called past service—liabilities arising under the group pension schemes.

Those past service liabilities may arise in two ways; a new plan may be started and credit is given to the employees for service rendered prior to the establishment of the plan, and the employer is doing something to finance those accrued liabilities.

We are asked, in circumstances of that kind, to advise him concerning the appropriateness of the payments proposed to be made for those accrued liabilities.

So also where a pension plan is administered privately, so to speak, or on an uninsured basis, in the hands of trustees, whether individuals or an incorporated trust company, where that plan has been inadequately financed in the past, so that there is a deficit in the fund at the present time, and where the employer is proposing to pay in additional funds, to remove that deficit, our department is asked to advise the minister concerning the adequacy or appropriateness of the proposed payment. But we have no special duties or responsibilities in connection with the amendment to the act last year.

Mr. HENDERSON: Do you know of any government department that has a duty in that respect?

Mr. MACGREGOR: Only the branch of the Department of National Revenue that deals with the registration of plans.

Mr. HENDERSON: I am not so much thinking of protecting the government, but I am thinking that under the present plan there will be a great many more contracts between an individual without the advantage of the group plan, and a trust company. And I just make this observation to you, Mr. Chairman, that I believe, having that in mind, that possibly it would be a very good idea to have the agreement form approved by some branch of the government for the protection of the individuals who do not have the group advantages available to corporations, where the corporation lawyer reviews the agreement before they sign it.

Mr. MACGREGOR: I quite agree as to the desirability of doing it, although I cannot speak for the branch of the Department of National Revenue that administers those plans. Nevertheless before the plan could be registered as such, under the act, and qualify under the provisions of section 79B I think an application form, and all other relevant documents would have to be inspected and passed upon by that department.

The WITNESS: May I add a comment and say that the Department of National Revenue are very jealously guarding the rights of the individual in this matter, and I have had some considerable experience with them in the past few months. I can assure you that they are very jealously guarding it.

By Mr. Henderson:

Q. I trust that is from the tax revenue point of view, not from the protection of the individual?—A. Both ways.

Mr. BROWN (*Essex West*): Would there be any restrictions on the company accepting deposits?

Mr. MACGREGOR: No, there would not. They would have the power to accept deposits; but I understand they have no intention of engaging in that form of business at the present time.

Of course, even if the company were to accept deposits, as this company may do at some time in the future, the volume of deposits, and all other forms of borrowed money from the public are limited by the Trust Companies Act in relation to the company's paid capital, and free reserves.

At present the aggregate borrowed money of any trust company operating under the Trust Companies Act is limited to ten times the paid capital and reserves of the company. So that there is, in effect, a surplus margin of 10 per cent in favour of depositors.

By Mr. Henderson:

Q. Will this make more savings available to investment in development corporations in Canada?—A. I think it certainly will make Canadian funds available for Canadian development, yes. And I think that this presents to us a situation that we are most happy with, in that we are getting Canadians to invest in Canada, and by the same token combatting inflation by encouraging a savings program.

Q. You do not intend investing your funds outside Canada?

The WITNESS: No, it is not our intention to do so.

The CHAIRMAN: Have you any other questions you may wish to ask? If not, we will deal with the bill.

Shall the preamble carry?

Preamble agreed too.

Clauses 1, 2 and 3 agreed to.

On clause 4—head office:

Mr. RICHARDSON: May I ask a question of Mr. Peterson; the head office is to be in Winnipeg; is it the present plan of the company to have offices in all the other provinces of Canada?

Mr. PETERSON: We have twenty offices across Canada at the present time.

Mr. RICHARDSON: The Investors Syndicate of Canada?

Mr. PETERSON: Yes; but we intend, so far as the trust company is concerned, to have only one office, at the head office. That is the only plan we have at the present time for the trust company.

Mr. RICHARDSON: Do you foresee within the near future having offices throughout all the provinces of Canada?

Mr. PETERSON: We do not; no discussion or consideration has been given to that at all.

Clause 4 agreed to.

On clause 5.

Mr. HENDERSON: On clause 5, this is the restrictive clause of the bill. I would like to ask Mr. MacGregor this question, in view of what he said—that his company did not intend to take deposits: if they wish to take deposits, they do not have to consult you or the branch, or parliament again, is that correct?

Mr. MACGREGOR: They would not require any amendment to the act, but they would certainly have to consult us. If they did not, we could consult them.

Mr. RICHARDSON: May I ask Mr. MacGregor one further question? The authorized capital is \$3 million, and the company is obliged to subscribe \$1 million before it can carry on business. According to the ratios Mr. MacGregor spoke about earlier, this seems to be perhaps onerous. May I take it, or is the committee to assume that the proposed company does not mind that amount of money?

Mr. PETERSON: It is agreeable to us, and we have so advised Mr. MacGregor.

Mr. RICHARDSON: My next and last question—and this is not by way of pettifogging in my trade or profession as a lawyer; but having drafted a few documents I was rather interested in the words, "bona fide". If they are subscribed, then they are subscribed. Does anyone interested in the bill know why the words "bona fide" were put in; or is that just a carry-over from all the other acts?

Mr. MACGREGOR: I think it is a carryover from the general act. Those words are used, I guess, in every general act that is administered in our department. I cannot say what the original intention was.

Mr. RICHARDSON: I shall not press the question, but they seem to be a little unnecessary.

Mr. BELL (*Carleton*): Does anyone else object to the split infinitive there?

Mr. RICHARDSON: I object to the fact that if you subscribe to something, is it not to be assumed that it is done bona fide? Why do you have the words "bona fide" in there at all?

Mr. MACGREGOR: My only comment is that an attempt has been made in the general act to ensure that directors, for example, are the official owners of the shares, and there are no subscriptions or shares held in the name of nominees and others.

Mr. RICHARDSON: That matter is taken up in the provisions of the Trust Companies Act.

Mr. CHRISTIAN: This will be strictly a Canadian company?

Mr. PETERSON: Yes.

Mr. CHRISTIAN: Will this capital stock be bona fide subscribed for by Canadians only; is that correct or not?

Mr. MACGREGOR: It may be subscribed by anyone; but in this case it is intended that it will be subscribed by Investors Syndicate of Canada Limited; and there will of course be some shares necessarily taken up by directors as qualifying shares. They might be sold to anyone, theoretically; but, in fact, they will not be—if the company proceeds according to its present plan.

Mr. HENDERSON: You do not intend to list the company on the public market for shares?

The CHAIRMAN: Before you came in, Mr. Christian, Mr. Cooper said that Investors Syndicate of Canada was 81 per cent Canadian owned.

Mr. CHRISTIAN: The question I wish to ask is this: supposing, for example, 95 per cent of the shares are subscribed for either by Investors Syndicate or, let us say, some other Canadian, and you have not got your full \$1 million, let us say; you would still then, in that case, go outside of Canada, would you not?

Mr. MACGREGOR: Theoretically they could, but Investors Syndicate have ample money to take up all this stock, and it is my understanding that they will take it up, except for directors' qualifying shares.

Mr. CHRISTIAN: All right, thank you.

Mr. RICHARDSON: On that point, I take it that Mr. MacGregor and his department have not yet reached the point where they would like to put a limitation in an act like this preventing people outside Canada from subscribing to this kind of company?

Mr. MACGREGOR: I have given no thought to it at all.

Clause 5 agreed to.

Clause 6 agreed to.

The CHAIRMAN: Shall the Title carry? Carried. Shall I report the bill, without amendment?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, before we rise, shall I report also the proceedings that took place before we introduced the bill, that is, the proceedings about reducing the quorum and asking leave to sit, and so on?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Thank you; and thank you, Mr. MacGregor, for giving us your time, and also Mr. Cooper and Mr. Peterson.

—The committee adjourned.

*Doc Canada. Banking and Commerce,
Standing Committee on*

HOUSE OF COMMONS
First Session—Twenty-third Parliament
1957

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- 1011*

STANDING COMMITTEE
ON

BANKING AND COMMERCE

Chairman: JOHN C. PALLETT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Bill No. 169

An Act to amend the Canadian and British Insurance
Companies Act

THURSDAY DECEMBER 5, 1957

Including Third Report to the House

WITNESSES:

Honourable Donald M. Fleming, Minister of Finance and Mr. K. R.
MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John C. Pallett, Esq.,

Vice-Chairman: J. Chester MacRae, Esq.

and Messrs.

Ashbourne,	Henderson,	Richardson,
Bell (<i>Carleton</i>),	Irwin,	Robichaud,
Benidickson,	Johnson (<i>Kindersley</i>),	Rynard,
Blackmore,	Jones,	St. Laurent
Broome,	Lambert,	(<i>Témiscouata</i>),
Brown (<i>Essex West</i>),	Low,	Sinclair,
Cameron,	Macdonald (<i>Vancouver-</i>	Stewart (<i>Winnipeg</i>
Cannon,	<i>Kingsway</i>),	<i>North</i>),
Cathers,	MacEachen,	Stinson,
Chown,	Macnaughton,	Thompson
Coates,	Marler,	(<i>Northumberland</i>),
Christian,	Martin (<i>Essex East</i>),	Thrasher,
Crestohl,	Morris,	Tucker,
Deslières,	Morton,	Villeneuve (<i>Glengarry-</i>
Dumas,	Pearson,	<i>Prescott</i>),
Ellis,	Power,	White,
Fraser,	Quelch,	Winkler—50
Gardiner,	Rea,	

(Quorum 10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, December 4, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, December 5, 1957.

The Standing Committee on Banking and Commerce has the honour to present the following as its

THIRD REPORT

Your Committee has considered Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act, and has agreed to report it without amendment.

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted.

JOHN C. PALLETT
Chairman

MINUTES OF PROCEEDINGS

THURSDAY, December 5, 1957.

(2)

The Standing Committee on Banking and Commerce met at 12.00 noon this day, The Chairman, Mr. John C. Pallett, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Broome, Brown (*Essex West*), Cathers, Chown, Coates, Christian, Dumas, Gardiner, Irwin, Johnson (*Kindersley*), Jones, Macdonald (*Vancouver-Kingsway*), MacRae, Morris, Morton, Pallett, Rynard, St. Laurent (*Temiscouata*), Sinclair, Stewart (*Winnipeg North*), Stinson, Thompson (*Northumberland*), and Tucker.

In attendance: Honourable Donald M. Fleming, Minister of Finance. *From the Department of Insurance:* Mr. K. R. MacGregor, Superintendent, and Mr. R. Humphrys, Assistant Superintendent. *From the Canadian Life Insurance Officers Association:* Mr. J. A. Tuck, General Counsel.

The Committee proceeded to the consideration of Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act.

Clause 1 was called.

Mr. Fleming outlined the purposes of the Bill and he was questioned thereon.

Mr. MacGregor supplemented Mr. Fleming's statement and dealt with questions relating to the various clauses of the Bill.

Clauses 1 to 6 inclusive, the Enacting Clause and the Title of the Bill were adopted.

The Bill was adopted without amendment and the Chairman was instructed to so report to the House.

On motion of Mr. Morton, seconded by Mr. Broome,

Ordered,—That the Committee print 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act.

At 1.05 p.m. the Committee adjourned to the call of the Chair.

E. W. Innes
Clerk of the Committee

EVIDENCE

THURSDAY, December 5, 1957.
11.30 a.m.

The CHAIRMAN: Gentlemen, will you please come to order. The clerk advises me that we now have a quorum.

We are assembled today for a discussion of Bill 169 "An Act to amend the Canadian and British Insurance Companies Act".

I now call Clause 1 of the bill under which heading we may have a general discussion. Perhaps the hon. Mr. Fleming, Minister of Finance would care to elaborate on what he said in the house Tuesday. Mr. Benidickson agreed very much with Mr. Fleming's lucidity. And perhaps the committee might also care to hear from Mr. MacGregor.

Hon. DONALD M. FLEMING, Minister of Finance: Thank you very much, Mr. Chairman, for your reference to my lucidity.

First of all, I want to thank you, Mr. Chairman, for the opportunity of appearing before you. The purpose of the bill was reviewed in the house when I spoke on Tuesday evening, and Mr. Benidickson followed me with a very excellent statement on the bill yesterday, if I may say so.

There are four matters which are treated in the bill. The first, and perhaps the most far reaching, is the provision for mutualization. I am not dealing with them in the order in which they appear in the bill.

Up to the present time there has been no standard provision in our insurance legislation to provide for mutualization.

Of course we have mutual companies operating in the life insurance field in Canada. One thinks first of the Mutual Life Insurance Company, the head office of which is in Waterloo; it however was incorporated as a mutual company. And one thinks of another company, the North American Life Insurance Company which was incorporated originally as a joint stock insurance company.

It was mutualized some years ago, but on that occasion it was done under special legislation; so this is the first time that legislation has been proposed to provide opportunities in general legislation for mutualization for life insurance companies that are now operating on the joint stock basis.

So far as mutualization is concerned the terms of reference are purely enabling. It will remain for every company within the terms of the bill to decide whether it wishes to mutualize or not.

If it does decide to mutualize, the bill contains what I think the committee will recognize as quite ample safeguards, both of the interests of the public and also of the policy holders, and of any who may be interested in the company concerned.

The effect of mutualization will be to keep control in Canada because in the case of all of these companies which will be affected by the terms of the legislation, the great bulk of their policy holders are domiciled in Canada.

Fundamentally this bill is intended to preserve Canadian control over Canadian life insurance companies because, in our view, life insurance companies are something of a national institution in Canada. The record of Canadian life insurance companies is an enviable one.

There is a question of policy involved here: we feel that steps should be taken to preserve the Canadian quality and character of an institution which has become something of a national system in this country.

Now, the second feature of the bill requires that a majority of the directors be Canadians resident in Canada. Again this purpose obviously is to preserve Canadian control.

The third feature of the bill, the purpose of which is in harmony with this idea, relates to companies that have not or may not now decide to mutualize.

Where a company is continuing to operate on the joint stock basis, provision is now introduced to authorize the board of directors if it chooses to do so—it is purely enabling—to decline to permit the transfer on the stock register of the company of shares registered in the name of a Canadian resident in Canada to a non-resident.

When we come to the clauses of the bill this particular feature, I think, will be quite clear. This provision does not extend to stock now held by non-residents. There is no possibility of interference with the rights of any non-resident stockholder to dispose of his stock as he may wish.

However, if he chose to sell his stock and transfer it to a Canadian resident, the terms of this legislation would then apply, and that Canadian resident transferee, then could not transfer his stock to a non-resident of Canada except with the permission of the board of directors.

Now this, I submit, is not an arbitrary provision. There are reasons of public policy to justify a provision of this kind:

The provision is purely enabling. The board of directors may or may not choose to exercise that power. But if a board of directors did not follow the wishes of the shareholders in this respect, then of course it comes within the power of the shareholders at the next succeeding meeting to change the board of directors and to change the policy in this respect.

I might also mention that the directors of any of these companies already possess the power to refuse the transfer of shares on the grounds that the shares are not fully paid. This is not breaking new ground in that sense.

The fourth and final feature of the bill has nothing whatever to do with the other provisions. It is taking care of something that does require legislative action. We were bringing the bill forward on these other features which we regard as urgent enough to bring before this present session, and this additional provision was added because it was desirable. Under existing legislation, fraternal benefit societies—which wrote insurance on juveniles were required to keep separate funds with respect to the insurance of juveniles. The occasion for keeping separate funds has passed. There is no occasion any longer to impose this rigid form of separation of funds upon these fraternal benefit societies and, therefore, it is proposed the law be changed to permit the mingling of these funds from this point forward.

I should be glad to answer any questions that hon. members may wish to ask. Mr. MacGregor is here to answer questions. I should explain to the new members that the Department of Finance is really two departments, the Department of Finance and a department of insurance. The insurance department is headed by the superintendent of insurance, Mr. MacGregor, and he is a deputy minister; he reports directly to the Minister of Finance; he does not report through the deputy Minister of Finance. Those who have sat on this committee before will bear me out when I pay tribute to the competence of Mr. MacGregor. He had won the respect and esteem of the former committees of Banking and Commerce to, I think, quite an unexcelled degree and he is here to answer any questions that anyone wishes to ask.

The CHAIRMAN: Are there any general questions you wish to ask on the bill? If there are no general questions we might proceed to the sections, and if you then have any particular questions you might raise them on the sections.

Mr. K. R. MacGregor, Superintendent of Insurance, called:

By Mr. Benidickson:

Q. May I direct a question to Mr. MacGregor. First of all, may I join the minister, as a former member of the Banking and Commerce Committee for some years, and say how much we have learned to respect Mr. MacGregor's counsel and advice. He has been a frequent visitor to this committee. As we very frequently have new members participating he has been most helpful in explaining to the committee some of these intricate matters, with which most of us are not familiar in our ordinary lives. I was wondering, Mr. MacGregor, inasmuch as I myself have read, as I recall, something in the financial papers of the prospect of permitting mutualization of stock companies, if since that time the Department of Insurance has received any objections to a necessary amendment to the Insurance Act to bring that about? Have you heard from the industry itself, shall we say?—A. My advice from the industry, Mr. Benidickson, is that they give this bill complete support, and I can say that we in the department have not received a single complaint either from a company or the industry as a whole, or anyone else.

Q. Have some of the stock companies specifically asked for an amendment in order to permit mutualization, such as this bill will now permit?—A. Yes, they have. The Manufacturers' Life Insurance Company, for example, with head office in Toronto, made a public announcement in July last, that contingent upon enabling legislation being granted they would like to mutualize; in other words, purchase their own shares and retire their stock.

Q. Would you be able to outline to the committee the mechanics that would enable them to do that? In other words, based on the present market value of those shares and the condition of assets of that company, could you indicate just how they would go about doing that and how long it might take?

The CHAIRMAN: Would you mind holding that question in abeyance until we get to clause 4?

Mr. BENIDICKSON: I will do that.

By Mr. Stewart (Winnipeg North):

Q. I have a general question to ask Mr. MacGregor. Since the announcement that insurance companies would mutualize if I may use that word—has Mr. MacGregor kept an eye on the stock market values of those shares and if so could you tell us what has been happening to them?—A. Yes, we have been quite familiar with the trend of share prices for some time now; not in the case of every company, but in the case of all companies where there have been undue activity in the shares and unduly large changes in prices.

Q. Have there been any large changes in prices recently, changes which might make you raise your eyebrows?—A. The general rise in prices began about 1950. There was a surge in the fall of 1950; some slight slackening in 1951, but prices held firm throughout that period. I would say they reached a peak about 1955, sagged a bit, then went up again in 1956, but have declined considerably in the last six months. I have in mind the price of stock in one of

our largest life insurance companies which in mid-1950 stood at about \$550 per share and rose in the fall to over \$1,500 per share and then rose subsequently to around \$3,000 per share, I should mention that the stock was split ten for one so that prices that were then quoted at \$3,000 per share would now be quoted on the basis of one-tenth of that sum. The price of that stock today would be about \$200 per share.

Q. Was there any reason for such an extraordinary increase?—A. There are probably two main reasons. One is that on occasion certain investors or speculators have endeavoured to purchase a substantial amount of the stock of the company and have naturally run the price up. That happened in 1950 in the case I have just mentioned. The decline in recent times is attributable in large part to the general decline in the market.

Q. Would you have any knowledge as to whether or not these investors who are trying, perhaps not to establish a corner but to get a very substantial number of these shares, were Canadian or non-Canadian?—A. I think without exception they were non-Canadians. Certainly in every important case they were non-Canadians.

Clause 1 agreed to.

On clause 2—Qualifications of directors.

By Mr. Macdonald (Vancouver Kingsway):

Q. I wish to ask either Mr. Fleming or Mr. MacGregor if we could have in a few words an explanation of the change from the existing subsection (3) of section 6. I notice the words "ordinarily resident" appear instead of "resident". Perhaps that is one of the changes. Then I see "all the directors" rather than "a majority of the ordinary directors". I wonder if the extent of the change could be put in a very few words.—A. At the present time the provisions of section 6 as regards citizenship and residence of directors apply only to the directors representing shareholders. Now, in a company where there is only one class of directors they are, under the act, called "ordinary directors". The term "shareholders' directors" relates to stock life insurance companies where there are two classes of directors, the directors representing the shareholders being designated as "shareholders' directors" and the directors representing the participating policyholders being designated "policyholders' directors".

Up to the present the act is silent as regards the composition of the board of directors as a whole where there is more than one class of director. The effect of this proposed provision would be to require a majority of the full board of directors in every case to be Canadian citizens ordinarily resident in Canada in addition to the former requirement of a similar nature which applied only to the directors representing the shareholders.

So far as the word "ordinarily" is concerned, I would say that the origin of that word lies in the Bank Act. Heretofore the Insurance Act has used the expression "Canadian citizen resident in Canada", but the term in the Bank Act is "ordinarily resident".

By Mr. Benedickson:

Q. There is a similar requirement in the Bank Act that a majority of the directors must be ordinarily resident in Canada—A. That is true; but there is a slight difference. I think in the Bank Act the requirement is that a majority of the board shall be subjects of Her Majesty ordinarily resident in Canada rather than Canadian citizens ordinarily resident in Canada.

By Mr. Stewart (Winnipeg North):

Q. I notice in subsection (3) of section 6 the requirement is carried forward that a director must have capital stock in the amount of at least \$2,500. Is there any reason for that—A. It has been in the act for a very long time. It is simply designed to ensure that a shareholders' director has a reasonably substantial personal interest in the company.

Q. In connection with subsection (3a), what would be the position, if such a position does exist there, that a majority of the directors are not citizens ordinarily resident in Canada—A. Fortunately we do not have to face that difficulty because in every case I believe the majority are Canadian citizens resident in Canada.

Mr. FLEMING: But if there should be a case where that is not the fact the company would have to comply with the terms of the act forthwith upon the act coming into effect.

By Mr. Stewart (Winnipeg North):

Q. Is there any possibility of having a *de jure* majority Canadian but not a *de facto* one—A. I can only say that in every case where we have any doubt we obtain an affidavit concerning their citizenship. As a matter of fact when a new company is incorporated, and I have particularly in mind fire and casualty companies because they are about the only kind that have been incorporated in recent years, as a routine procedure we obtain an affidavit covering the citizenship and residence of the directors in every case.

Q. That means you want to make sure the law is complied with?

By Mr. Cathers:

Q. Mr. MacGregor, have you had any objection from foreign policyholders? I do not know whether or not in the case of Manufacturers Life Insurance Company they would have policyholders' directors; but, for example, they did a great deal of far eastern business and they might have had—I do not know—a director there who was a policyholder director. Would there be any objection?—A. There is nothing to prevent their having one. Even in the case of a mutual company there is nothing to prevent such a company having some policyholder directors outside Canada.

Mr. FLEMING: There is no exclusion. It is simply that the majority must be resident in Canada.

By Mr. Christian:

Q. Does this act have any reference at all to any insurance company which is incorporated under provincial law?—A. No sir, it has not. Every provision in this bill relates solely to Canadian companies or Canadian fraternal benefit societies incorporated by parliament. The bill has no application whatsoever, directly or indirectly, to any British, foreign or provincially incorporated company or society.

Mr. FLEMING: This is simply a bill to amend the Canadian and British Insurance Companies Act, and section 2(d) contains this definition:

"Company" means any corporation incorporated under the laws of Canada or of the late province of Canada, for the purpose of carrying on the business of insurance, and includes "fraternal benefit society" as defined by this act;

Clauses 2 and 3 agreed to.

On clause 4—Conversion of capital stock companies into mutual companies.

The CHAIRMAN: Mr. Benidickson, you had a question on clause 4.

By Mr. Benidickson:

Q. I wonder if Mr. MacGregor would describe for us how a company would go about buying its capital stock, and would he relate it specifically to one company, say Manufacturers Life Insurance Company, having regard to its capitalization and having regard to the assets which might be available to that company for this purpose?—A. Have you in mind more particularly the procedure or the price?

Q. Procedure, but I think tied in with price.—A. The proposed new section 90A, found in clause 4, sets forth the procedure.

Q. I am thinking largely in terms of financial ability to complete the act and the possible length of the time which might be involved in doing that having regard to the funds involved.—A. I think it is a matter which must be considered individually. There are so many features and aspects which have to be taken into account. One has to know more than the figures which appear in the balance sheet; one must know also the practices in computing reserves, the earning capacity, the kinds of business being transacted, etc. On the latter point alone, if a company is doing mainly a participating business, and relatively little non-participating business, then that company ordinarily has greater inherent strength through the mere fact that the premiums charged for participating policies are larger and if difficulties have to be faced, dividends to policy holders can be reduced, whereas in a non-participating business it is a strictly contractual matter and the margins in the premiums are consequently smaller. I might answer your comment about price by saying that this is really the \$64,000 question in every case.

Q. Mr. Chairman, I apologize, but last night I mentioned something that came to me in connection with section 3, under which this discretionary power would now be given to deny a transfer from a Canadian to a non-resident. I wonder whether Mr. MacGregor has any views as to whether, according to this enactment, we would likely have shares having differing values according to the holding of these shares. In other words, shares now held by non-residents will in future be open for transfer. The shares in the same company now under Canadian ownership will be subject to this possibility, that they could not sell them to anybody in the world. Do you think as a result of that we might develop a market for shares that would have two quotations—that is, that are now held by non-residents and those that are held today by Canadian shareholders?—A. I think it is unlikely. If a person, whether he be a resident or a non-resident, buys a share, he is going to be in the same position after purchase, whether he got it from a Canadian or a non-Canadian. For example, if a Canadian buys a share from a non-resident, the rights of transfer, so far as that new Canadian shareholder is concerned, will be exactly the same as though he bought it from a Canadian. Likewise, if a non-Canadian buys a share, whether it be from a Canadian or another non-Canadian, he may transfer that share freely. The effect of this clause is that:—

Q. A non-Canadian buying from a Canadian will not be able to transfer, will he?—A. Yes. A non-Canadian holding shares now cannot be interfered with.

Q. Yes?—A. Nor can a non-Canadian who in the future, acquires a share, no matter from whom he acquired it, be interfered with. In other words, the shares now held outside of Canada, or which may in future be permitted to be transferred out of Canada, will have the same status and cannot be interfered with in either case.

Q. But I am thinking that if non-residents had a desire to acquire shares in Canadian insurance companies, and they felt there was some special value in that form of shareholdings, they would seek the shares of non-residents because they would know that the directors have no power to refuse transfer with respect to those shares.

An hon. MEMBER: They have.

The WITNESS: It would not matter. If those non-residents desire to become shareholders, and were to purchase shares from Canadians, then those non-residents could not thereafter be interfered with.

By Mr. Benidickson:

Q. If the board of directors consent to the transfer.—A. The board of directors would have no power to interfere.

Mr. FLEMING: Mr. Benidickson means in the first instance.

By Mr. Benidickson:

Q. Yes, in the first instance. That is why I base my query as to whether or not shares presently held by non-residents, which are not subject to restriction or restraint in the future, might not have a value to non-resident purchasers greater than shares presently held by Canadian residents. Consequently, are you not establishing two prices for a share?

The CHAIRMAN: I think, Mr. Benidickson, there is a possibility, but only a possibility. Would it not depend upon the circumstances at the time that surrounded the market?

Mr. FLEMING: Theoretically, the situation could arise where the stock in the hands of a non-resident person might have a value greater to a non-resident than stock held at that date by a Canadian. But I think we probably pretty well agree that this is more theoretical than real. We cannot eliminate the possibility entirely. But, if there is anything to it, it is an inevitable incident of what we are trying to do here. There have been other proposals put forward for trying to give some measure of control against the Canadian shares getting into the hands of non-residents in cases where it might involve the control of the company.

Now, this was the method chosen because it was thought to interfere least and to be most in keeping with the purposes of the present act. Other provisions do give the directors the power to withhold consent to transfer. In the case I have mentioned—and this is of that nature—it is purely an enabling power.

By Mr. Benidickson:

Q. I just raised the point as to the possibility that shares, without restriction might have a wider market, and consequently a premium.—A. It is a possibility, although—

The CHAIRMAN: Shall clause 4 carry?

By Mr. Stewart (Winnipeg North):

Q. May I ask a question—and it is probably a hypothetical question, but I find it very interesting. Take the case of a Canadian corporation, with a Canadian charter, a Canadian enterprise; but you know very well that it is controlled from outside Canada. Now, supposing this Canadian entity wishes to buy shares and their offer to buy is turned down by the board of directors, might that not be ultra vires in view of civil and property rights?

The CHAIRMAN: Mr. Stewart, is that not a legal question, and is not the answer that the shareholder buys these shares subject to the conditions attached to the shares at the time he purchases them?

MR. STEWART (*Winnipeg North*): It is a legal question, but I am not a lawyer.

THE CHAIRMAN: And, having purchased the shares, he is subject to the conditions that exist.

MR. STEWART (*Winnipeg North*): But, supposing the board of directors say, "We are not going to sell you these shares." Here is a Canadian entity which cannot buy shares, and for a very good reason cannot buy shares. I am wondering if this is *ultra vires*.

THE CHAIRMAN: It exists in many private companies that are created under other existing legislation. You look to the terms of the legislation. I think this is a legal poser, but I think it is one that the shareholders must accept within the terms of the bill.

MR. FLEMING: With respect, I do not think it arises under this act. Mr. Stewart has put the question of the company selling stock. The whole purpose of mutualization is to enable a company to purchase stock. The only place where the question could have any bearing is in the case of the sale of treasury stock by the company at some stage. But it is up to the company to sell to whom or where it chooses, so far as its own treasury stock is concerned. But that does not arise in this measure.

MR. STEWART (*Winnipeg North*): Supposing this Canadian company buys these shares on the market, and the board of directors say, "We will not recognize this", would there be any conflict there between civil and property rights?

MR. MACDONALD (*Vancouver-Kingsway*): Does not property and civil rights give way completely in the face of federally incorporated insurance companies?—A. I think it does.

MR. FLEMING: So far as insurance is concerned, parliament has power to legislate on the status of companies. But jurisdiction over the insurance contract and incidents flowing from the contract are vested in the legislatures of the provinces.

The WITNESS: I might say, Mr. Stewart, that the constitutional aspects of the clause were considered carefully by the Department of Justice and they have assured us that what is proposed is *intra vires*.

By Mr. Broome:

Q. Everywhere it refers to life insurance, does this act cover general insurance companies,—casualty, and all that sort of thing?—A. Yes, it does. Some parts of it apply particularly to life companies, other parts to fire and casualty companies, other parts to fraternal benefit societies, and other parts relate to all kinds of companies. The proposed new section 16A in clause 3, and the proposed new section 90A in clause 4 relate only to life insurance companies.

MR. MACDONALD (*Vancouver-Kingsway*): Clause 4 is the mutualization clause, is it not?

THE CHAIRMAN: Yes, it is.

By Mr. Macdonald (Vancouver-Kingsway):

Q. I have one or two questions, Mr. MacGregor.

Just looking at this quickly, I am in doubt as to whether a company can partially mutualize but still have some of its shares outstanding in the hands of private stockholders?—A. As the minister explained, Mr. Macdonald, there is nothing of a compulsory nature about the proposal in this proposed new section. It is optional whether any company mutualizes or not. Every

party concerned must be consulted, first of all the minister, then the directors, the shareholders, the policy holders, and the treasury board. The section is designed to ensure that a company having chosen to embark on the path of mutualization is in a financial position to do so, and does so with the complete agreement of all parties concerned.

It is also contemplated that if a company embarks upon this path it will complete mutualization as soon as reasonably practicable; that is to say, as soon as its surplus position permits and as soon as the shares are offered to the company for sale. No shareholder would be compelled to sell to the company—it is purely optional on his part. If shareholders offer their shares, the company is obliged to take them up, if it is in a financial position to do so. The company cannot, for example, simply buy off some troublesome shareholders, or buy up even the majority of its stock and then decide that it will do no more. If shareholders continue to offer their shares the company must continue to purchase them.

Finally, when at least 90 per cent of the stock has been sold to the company, the company would be empowered to require the residual 10 per cent to sell their shares to the company. There is precedent for that in the Companies Act. The object, of course, is to prevent a few shares that have become lost trails, perhaps, or a very few shareholders from preventing the company completing its plan of mutualization.

Q. Supposing 25 per cent of the shareholders held out for a higher price and the company in the meanwhile had mutualized to the extent of 75 per cent of the outstanding shares, who would control the company at that stage? Would the 25 per cent control the company or could the company itself vote the 75 per cent of the shares which have been mutualized?—A. The policyholders' directors would really control the company, because the shares purchased by the company are voted by the policyholders' directors.

Q. Until the whole plan was completed?—A. That is correct. In any scheme of mutualization the policyholders are really buying out the shareholders. I think it is right and reasonable that the policyholders' directors should be vested with the voting rights of the stock that has been purchased, until it is retired.

By Mr. Cathers:

Q. On the question of price, would it be set arbitrarily?—A. That is a very difficult question, Mr. Cathers. I admit that it is probably the most important element in any scheme of mutualization. It is one thing to determine the theoretical price, no matter how it is computed, and there are many ways in which it can be computed. On the other hand, it must be a practical price in the sense that it must be acceptable to the shareholders. If the price is too low the shareholders simply will not sell. On the other hand, it ought not obviously to be set so high that it is unfair to the policyholders.

When you ask who will set the price in the first instance, the directors of the company must do so, but the price must be such that the treasury board is satisfied that the price in their view is reasonable and fair.

In any mutualization it is, of course, desirable that the price should remain stable as far as possible, or as long as possible, so that all shareholders would be treated alike. Under the provision of the bill the price may be changed, but not arbitrarily, or willy-nilly, from time to time. The price set initially must stand for at least six months and can only be changed by the directors with the approval of the minister, on report from our department. Any price so changed would then have to remain fixed for at least six months.

In actual practice it would be the desire of everyone, I think—the company, the department, and the shareholders too—that the price should remain stable, so that all are paid the same. If some proportion of the shareholders do not wish to sell, they would not be forced to do so.

Q. Is there a possibility of trouble arising as a result of the company paying \$200 during the six months for a certain number of shares, and then the offer of shares stops, following which they decide to change the price—at the end of six months—to \$250? Is it not likely that those shareholders, who had sold their stock for \$200, would get into a real scrape?—A. They would not be too happy.

Mr. FLEMING: I can assure you, Mr. Cathers, that that possibility would not be overlooked by the minister, or by the treasury board when asked to give approval either to the right price or to any change of it.

The WITNESS: The provisions of the section are designed, as far as practicable, to safeguard the position of the shareholders. The residual shareholders ought not to be put in a position where, for example, they could virtually be frozen out by dividends being arbitrarily cut, or eliminated altogether. Is it for that reason there is provision ensuring that their dividends shall be not less than the average of the last three years, prior to mutualization, unless the company makes a case to the satisfaction of the minister. On the other hand, no company can start on this path unless the majority of the shareholders approve of the plan. So that really from the start, the company is, for all practical purposes, well on that path, and it is hardly practicable for some small group of shareholders to hold out later with very far reaching effect.

Clauses 4 and 5 agreed to.

On clause 6—Separate insurance funds to be established:

Mr. BENIDICKSON: Mr. Chairman, I was going to say we have moved pretty rapidly with the bill since it was presented to the House of Commons. Of course, everything in the bill with the exception of the requirement for a majority of directors is discretionary and subject largely to the decisions of individual companies internally as to whether they take advantage of the legislation or not. I hope, however, the minister will not advance the bill into the House of Commons again too rapidly so that there would be an opportunity for the country as a whole to understand the terms of the bill adequately and communicate with us in parliament.

Mr. FLEMING: Mr. Chairman, may I say on that, I had hoped that this bill might be given third reading in the house next week. I think the terms of the bill are already well known to the insurance companies in the country. The bill was printed some time ago and distributed, so I think they have had it for some days now.

Clause 6 agreed to.

Preamble agreed to.

The CHAIRMAN: Shall I report the bill without amendment?

Agreed to.

Gentlemen, we have had the shorthand reporters here without a formal motion to print the proceedings. I would appreciate a motion from the floor that we print 750 copies of the evidence today in English and 250 in French.

Mr. MORTON: I so move.

Mr. BROOME: I second the motion.

Agreed.

The CHAIRMAN: Thank you gentlemen. There will be no meeting this afternoon. We have with your co-operation proceeded with expedition. Thank you.

The committee adjourned to the call of the Chair.

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